

# **The Harrisburg Authority**

## **Financial Statements and Supplementary Information**

**Year Ended December 31, 2009 with  
Independent Auditor's Report**

# **THE HARRISBURG AUTHORITY**

YEAR ENDED DECEMBER 31, 2009

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## Independent Auditor's Report

Members of the Board of Directors  
The Harrisburg Authority

We have audited the accompanying financial statements of The Harrisburg Authority (Authority), a component unit of the City of Harrisburg, Pennsylvania, as of and for the year ended December 31, 2009, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2009, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Authority incurred significant financings in December 2003 and, again, in December 2007, to fund the costs of the modernization project related to the Authority's Resource Recovery Facility. Additionally, the Resource Recovery Segment has experienced significant operating losses, has an accumulated deficit of approximately \$138 million at December 31, 2009, and is in violation of certain covenants under its trust indentures. Additionally, as discussed further in Note 11 to the financial statements, the Authority has issued multiple notices of material events, including, but not limited to non-payment of required debt service, with respect to certain of the Resource Recovery Facility bonds.

The Water Segment has an accumulated deficit of approximately \$35 million at December 31, 2009, and is in violation of certain covenants under its trust indentures. Additionally, as discussed further in Note 11 to the financial statements, the Authority has issued multiple notices of material events with respect to certain of the Water System bonds.

The Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. The Authority has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to supplement, although not to be part of, the financial statements.

Our audit was conducted for the purpose of forming an opinion on the Authority's financial statements taken as a whole. The combining schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The combining schedules have been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

*Maheer Duessel*

Harrisburg, Pennsylvania  
December 21, 2011

# THE HARRISBURG AUTHORITY

## BALANCE SHEET

DECEMBER 31, 2009

### Assets

#### Current assets:

Cash and cash equivalents	\$ 10,140,464
Grants receivable	247,649
Accounts receivable, net of allowance for uncollectible accounts of \$1,685,957	5,490,960
Accrued interest receivable	1,284
Due from the City of Harrisburg	95,000
Current portion of direct financing lease	1,731,084
Current portion of advances to the City of Harrisburg	173,250
Total current assets	<u>17,879,691</u>

#### Restricted assets:

Cash and cash equivalents - restricted under trust indentures and guarantee agreement	3,659,564
Investments - restricted under trust indentures	56,923,224
Litigation settlement receivable	88,000
Total restricted assets	<u>60,670,788</u>

#### Noncurrent assets:

Direct financing leases, net of unearned income of \$380,968	1,604,826
Advances to the City of Harrisburg	1,624,782
Capital assets, not being depreciated	2,473,281
Capital assets, net of accumulated depreciation of \$57,976,441	184,058,521
Deferred financing costs, net of accumulated amortization of \$9,572,048	13,558,254
Total noncurrent assets	<u>203,319,664</u>

<b>Total Assets</b>	<b><u>\$281,870,143</u></b>
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## **Liabilities and Net Assets**

### **Liabilities:**

#### **Current liabilities:**

Accounts payable and accrued liabilities	\$ 616,979
Current portion of amount due to the City of Harrisburg	6,309,303
Due to bond insurer	630,474
Due to County of Dauphin	2,329,367
Total current liabilities	9,886,123

#### **Liabilities payable from restricted assets:**

Accounts payable	3,632,440
Accrued interest payable	5,302,652
Current portion of loan payable	1,912,500
Current portion of notes payable	35,648,250
Current portion of bonds payable	9,240,000
Total liabilities payable from restricted assets	55,735,842

#### **Noncurrent liabilities:**

Due to the City of Harrisburg	366,188
Loan payable	17,511,500
Notes payable, net of discount of \$830,811	68,240,261
Bonds outstanding, net of premium and deferred losses on refunding of \$24,627,218	292,012,782
Deferred revenue	4,560,138
Accrued landfill closure and post-closure liability	2,242,262
Total noncurrent liabilities	384,933,131
Total Liabilities	450,555,096

### **Net Assets:**

Invested in capital assets, net of related debt	(172,391,956)
Restricted:	
Debt service	9,990,258
Construction	388,557
Guarantee agreement	304,374
Water operations	3,182,272
Unrestricted	(10,158,458)
Total Net Assets	(168,684,953)
Total Liabilities and Net Assets	\$281,870,143

The accompanying notes are an integral part of these financial statements.

**THE HARRISBURG AUTHORITY**  
**STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN FUND NET ASSETS**  
YEAR ENDED DECEMBER 31, 2009

**Operating Revenues:**

User charges	\$ 42,234,213
Administrative fees	906,299
Total operating revenues	<u>43,140,512</u>

**Operating Expenses:**

Operating	30,074,481
Administrative	1,717,997
Depreciation	6,980,230
Landfill closure and post-closure care expense	<u>(27,901)</u>
Total operating expenses	<u>38,744,807</u>

<b>Operating Income</b>	<u>4,395,705</u>
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**Non-Operating Revenues (Expenses):**

Investment income	695,511
Lease rental income	414,977
Miscellaneous income	51,446
Transfers to the City sewer operating fund	(4,586,313)
Interest expense	(25,016,914)
Amortization of deferred financing costs	<u>(1,942,975)</u>
Total non-operating revenues (expenses)	<u>(30,384,268)</u>

<b>Change in Net Assets</b>	(25,988,563)
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**Net Assets:**

Beginning of year	<u>(142,696,390)</u>
End of year	<u><u>\$ (168,684,953)</u></u>

The accompanying notes are an integral part of these financial statements.

# THE HARRISBURG AUTHORITY

## STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2009

### Cash Flows From Operating Activities:

Receipts from customers and users	\$ 41,888,660
Payments to suppliers	(24,573,905)
Payments to management agent	(7,975,987)
Net cash provided by operating activities	<u>9,338,768</u>

### Cash Flows From Investing Activities:

Sales of investments, net	14,386,700
Investment income received	1,149,600
Payments received on direct financing leases	1,909,483
Net cash provided by investing activities	<u>17,445,783</u>

### Cash Flows From Non-Capital Financing Activities:

Transfers to City's sewer operating fund	(3,200,000)
Net cash used in non-capital financing activities	<u>(3,200,000)</u>

### Cash Flows From Capital and Related Financing Activities:

Decrease in advances to the City of Harrisburg	164,977
Proceeds from issuance of notes payable	12,466,000
Acquisition and construction of capital assets	(11,654,467)
Interest paid	(20,382,155)
Principal paid on capital lease	(192,548)
Principal paid on long-term debt	(9,029,978)
Proceeds from litigation settlement	5,327,000
Payments from litigation settlement	(1,834,091)
Receipts from bond insurance and debt guarantees	7,797,176
Transfers to City's sewer operating fund	(1,386,313)
Net cash used in capital and related financing activities	<u>(18,724,399)</u>

### Net Increase in Cash and Cash Equivalents

4,860,152

### Cash and Cash Equivalents:

Beginning of year	8,939,876
End of year	<u>\$ 13,800,028</u>

### Reconciliation of Operating Income to Net

#### Cash Provided by Operating Activities:

Operating income	\$ 4,395,705
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	6,980,230
Miscellaneous nonoperating income (expense)	(67,304)
Increase in grants receivable	(247,649)
Increase in accounts receivable	(187,820)
Decrease in accounts payable	(2,363,571)
Increase in due to City of Harrisburg	857,078
Decrease in accrued landfill closure and post-closure liability	(27,901)
Net cash provided by operating activities	<u>\$ 9,338,768</u>

The accompanying notes are an integral part of these financial statements.



# THE HARRISBURG AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Harrisburg Sewerage Authority (Sewerage Authority) was incorporated June 3, 1957, under the provisions of the Municipality Authorities Act of 1945. On December 1, 1987, the Sewerage Authority's Articles of Incorporation were amended to change its name to the Harrisburg Water and Sewer Authority (Water Authority). On January 30, 1990, the Water Authority filed Articles of Amendment with the Pennsylvania Department of State to change its name to The Harrisburg Authority (Authority), also broadening its purpose and extending the term of its existence. The purpose of the Authority is, among other things, to engage in public works projects relating to the ownership and operation of the water system and resource recovery facility and the leasing of the wastewater treatment and conveyance systems. The Authority also issues nonrecourse tax-exempt debt for other entities for the purpose of financing capital improvement projects.

The Authority is a component unit of the City of Harrisburg (City) reporting entity. Criteria considered in making this determination include appointment of the Authority's Board of Directors (Board), financial interdependence, and the Authority's potential to provide specific financial benefits to, or impose specific financial burdens on the City.

#### Basis of Presentation

All activities of the Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for activities similar to those found in the private sector where the determination of net income is necessary for sound financial administration. Costs of construction, debt reduction, and Authority administration are financed or recovered through lease rentals received from the City, user charges, administration charges, and income on investments held by the Authority.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are charges for water and incinerator services and administrative fees for conduit debt issuance. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

#### Basis of Accounting

The Authority's financial statements are presented using the accrual method of accounting, under which revenues are recorded in the period that they are earned and expenses are recorded when the liability is incurred. The Authority follows the accounting and financial

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# THE HARRISBURG AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

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reporting standards issued by the Governmental Accounting Standards Board (GASB). The Authority follows only those Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, as allowed under GASB Statement No. 20, *"Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting."*

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net assets (i.e., total assets net of total liabilities) are segregated into "Invested in capital assets, net of related debt;" "Restricted for" various purposes; and "Unrestricted" components.

### Non-recourse Debt Issues

The Authority participates in various bond issues for which it has limited liability. Acting solely in an agency capacity, the Authority serves as a financing conduit, bringing the ultimate borrower and the ultimate lender together to do business. Although the Authority is a party to the trust indentures with the trustees, the agreements are structured such that there is no recourse against the Authority in the case of default. As such, the corresponding debt is not reported in the Authority's balance sheet, but is disclosed in Note 8.

### Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Authority considers all highly liquid instruments with original maturities of three months or less to be cash equivalents.

### Investments

The Authority accounts for investments at fair value. The fair value of the Authority's investments is based upon values provided by external investment managers and quoted market prices.

### Restricted Assets

Certain proceeds of revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable trust indentures or other agreements.

# THE HARRISBURG AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

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### Capital Assets

Capital assets in service and construction in progress are carried at cost, if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value, if available, or at engineers' estimated fair market value or cost to construct at the date of the contribution. Utility systems acquired from other governmental service providers are recorded at the purchase price, limited to fair market value. Costs of studies that directly result in specific projects are capitalized. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Maintenance and repairs, which do not significantly extend the value or life of property, plant, and equipment, are expensed as incurred.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the asset constructed.

Depreciation expense for the Water Fund assets acquired prior to 1992 and for Resource Recovery Fund assets acquired prior to 1997 are calculated using a 2% annual rate. For acquisitions subsequent to these dates, capital assets are depreciated using the straight-line method, over the estimated useful lives, as follows:

Land improvements	25 years
Water mains and related accessories	75 years
Water meter equipment	25 years
Buildings (including Resource Recovery Facility)	50 years
Office equipment	5-15 years
Office furnishings	15 years
Operating equipment	10-50 years
Vehicles	7 years

### Advances to the City of Harrisburg

Advances to the City represent construction in progress for sewer system improvements.

### Amount Due to the City of Harrisburg/Bond Insurer/County of Dauphin

As further discussed in Note 11, during the year ended December 31, 2009, the City, bond insurer, and County were required to make certain debt service payments on behalf of the

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# THE HARRISBURG AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

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Authority under various guarantee/insurance agreements. These amounts are presented as due to the various entities on the balance sheet at December 31, 2009. In addition, the amounts due to the City and the County include accrued interest, per the guarantee agreements, at a rate of eight percent per annum or the prime rate, whichever is greater.

### Deferred Costs

Financing costs and discounts/premiums are deferred and are being amortized over the respective life of each bond issue using the effective interest rate method. Losses on debt refundings (including swap termination fees) are deferred and are being amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. On the balance sheet, the unamortized financing costs are reported as a deferred charge (asset) and the unamortized discounts/premiums and deferred losses on refundings are reported as a deduction from the outstanding bonds.

### Deferred Revenue

Deferred revenue, consisting of monies received from debt service forward delivery agreements, is being amortized to interest income over the respective life of each of the agreements using a method that approximates the interest rate method. The balance of deferred revenue relates to management and operating rights as discussed in Note 5.

### Net Assets

Net assets comprise the various net earnings from operating and non-operating revenues, expenses, and contributions of capital. Net assets are classified in the following three components: Invested in capital assets, net of related debt; restricted for various purposes; and unrestricted net assets. Invested in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction, and improvement of those assets. Debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted for various purposes consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws regulations and enabling legislation, including self-imposed legal mandates, less any related liabilities. Unrestricted consists of all other net assets not included in the above categories.

### Restricted Resources

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

# THE HARRISBURG AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

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### Use of Estimates

Management of the Authority has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent liabilities to prepare the financial statements in conformity with accounting principles generally accepted in the United States of America. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Pending Pronouncements

In June 2008, GASB issued Statement No. 53, *"Accounting and Financial Reporting for Derivative Instruments."* In June 2011, GASB issued Statement No. 64, *"Derivative Instruments: Application of Hedge Accounting Termination Provisions - an amendment of GASB Statement No. 53."* These Statements address the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The provisions of these Statements are effective for the Authority's December 31, 2010 financial statements.

In June 2011, GASB issued Statement No. 63, *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position."* Statement No. 63 provides guidance on reporting deferred inflows and outflows of resources, which are distinctly different from assets and liabilities. As a result of reporting these additional elements, the residual balances will be considered as net position, rather than net assets. The provisions of this Statement are effective for the Authority's December 31, 2012 financial statements.

The effect of implementation of these Statements has not yet been determined.

## **2. DEPOSITS AND INVESTMENTS**

### Deposits

Pennsylvania Act 72 provides for investment of public funds in certain authorized investment types including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations, insured or collateralized time deposits, and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of public funds for investment purposes.

The deposit and investment policy of the Authority adheres to state statutes, prudent business practices, and the applicable trust indentures, which are more restrictive than existing state statutes. Deposits are maintained in demand deposits and certificates of deposit.

# THE HARRISBURG AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

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The deposits of the Authority at December 31, 2009 were as follows:

Cash and cash equivalents	
Unrestricted	\$ 10,140,464
Restricted under trust indentures and guarantee agreements	<u>3,659,564</u>
	<u>\$ 13,800,028</u>

*Custodial Credit Risk* – Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. As of December 31, 2009, the Authority's book balance was \$13,800,028 and the bank balance was \$13,803,770. Of the bank balance, \$508,076 was covered by federal depository insurance and \$13,295,694 was collateralized under Act No. 72 of the 1971 Session of the Pennsylvania General Assembly, in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits.

### Investments

The restricted investments of the Authority at December 31, 2009, were as follows:

Money market funds	\$ 37,305,302
U.S. Government agency obligations	8,213,697
U.S. Government obligations	198,540
Municipal bonds	7,425,175
Commercial paper	<u>3,780,510</u>
Total	<u>\$ 56,923,224</u>

*Custodial Credit Risk* – Custodial credit risk is the risk that the counterparty to an investment transaction will fail and the government will not recover the value of the investment or collateral securities that are in possession of an outside party. The Authority does not have a formal investment policy for custodial credit risk. All of the Authority's investments are held by the counterparty's trust department or agent not in the Authority's name.

# THE HARRISBURG AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

*Concentration of Credit Risk* - The Authority places no limit on the amount the Authority may invest in any one issuer. More than five percent of the Authority's investments are held as follows:

	<u>Fair Value</u>	<u>% of Total</u>
Federal National Mortgage Association	\$ 6,521,753	11.46%
General Obligation Pension Bonds - Illinois State	5,247,270	9.22%
FCAB Owner Trust Discount C/P	3,780,510	6.64%

*Credit Risk* - The Authority does not have a formal policy that would limit its investment choices with regard to credit risk. The Authority's money market funds and fixed income investments had the following level of exposure to credit risk as of December 31, 2009:

	<u>Fair Value</u>	<u>Rating</u>
Money market funds	\$ 37,305,302	AAA
U.S. Government agency obligations	8,213,697	AAA
U.S. Government obligations	198,540	AAA
Municipal bonds	5,247,270	A
Municipal bonds	2,177,905	BB
Commercial paper	3,780,510	A+

*Interest Rate Risk* - The Authority does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The following is a list of the Authority's money market and fixed income investments and their related average maturities:

	<u>Fair Value</u>	<u>Investment Maturity (in Years)</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Greater than 10</u>
Money market funds	\$ 37,305,302	\$ 37,305,302	\$ -	\$ -	\$ -
U.S. Government agency obligations	8,213,697	2,804,094	-	-	5,409,603
U.S. Government obligations	198,540	198,540	-	-	-
Municipal bonds	7,425,175	-	-	-	7,425,175
Commercial paper	3,780,510	3,780,510	-	-	-
Total	<u>\$ 56,923,224</u>	<u>\$ 44,088,446</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,834,778</u>

# THE HARRISBURG AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

### 3. CAPITAL ASSETS

Capital assets for the year ended December 31, 2009 are as follows:

	Balance at January 1, 2009	Additions/ Transfers In	Retirements/ Transfers Out	Balance at December 31, 2009
Capital assets, not being depreciated:				
Artifacts	\$ 351,865	\$ -	\$ -	\$ 351,865
Construction in progress	11,592,991	3,988,775	(13,460,350)	2,121,416
Total capital assets, not being depreciated	<u>11,944,856</u>	<u>3,988,775</u>	<u>(13,460,350)</u>	<u>2,473,281</u>
Capital assets, being depreciated:				
Land improvements	1,223,614	1,624,129	-	2,847,743
Buildings and improvements	120,021,676	7,858,944	-	127,880,620
Furniture and fixtures	372,552	291,143	-	663,695
Machinery and equipment	<u>100,675,026</u>	<u>9,979,069</u>	<u>(11,191)</u>	<u>110,642,904</u>
Total capital assets, being depreciated	222,292,868	19,753,285	(11,191)	242,034,962
Less: accumulated depreciation	<u>(51,007,402)</u>	<u>(6,980,230)</u>	<u>11,191</u>	<u>(57,976,441)</u>
Total capital assets being depreciated, net	<u>171,285,466</u>	<u>12,773,055</u>	<u>-</u>	<u>184,058,521</u>
Total capital assets, net	<u>\$ 183,230,322</u>	<u>\$ 16,761,830</u>	<u>\$(13,460,350)</u>	<u>\$ 186,531,802</u>

### 4. LEASES

At December 31, 2009, the Authority, through its Sewer Fund, is the lessor or sublessor in two separate direct financing leases with the City. The leases relate to the wastewater treatment, conveyance, and collection systems. Generally, the leases provide for rentals to be 110% of debt service requirements, with additional rentals to fund Authority administrative expenses.



# THE HARRISBURG AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

The following table shows the future minimum rentals to be received under direct financing leases at December 31, 2009:

	Basic Lease Rental	Authority Administrative Fee	Total
2010	\$ 1,861,382	\$ 250,000	\$ 2,111,382
2011	1,855,496	250,000	2,105,496
	3,716,878	\$ 500,000	\$ 4,216,878
Less unearned income:	(380,968)		
Present value of net minimum lease payments	\$ 3,335,910		

During the year ended December 31, 2009, the Authority received basic lease rentals of \$1,393,561 from the City. The Authority used funds available in the Sewer Fund's clearing account, in the amount of \$464,520, to reduce the amount receivable from the City. Together these amounts represent interest income of \$363,575 and a reduction of the lease rental receivable of \$1,494,506. The Authority also received \$45,000 in administrative fees from the City during the year ended December 31, 2009. Administrative fees in the amount of \$95,000 are due from the City at December 31, 2009.

### 5. DEFERRED REVENUE

#### Development and Service Agreement

During October 2000, the Authority was designated as the developer of certain parking facilities located at the National Civil War Museum. In order to fulfill the requirements as designated developer, the Authority entered into an agreement with the Harrisburg Parking Authority. Under this agreement, the Harrisburg Parking Authority is to act as the sole and exclusive manager and operator of such parking facilities, including management and oversight of the day-to-day operations of the parking facility through October 2024. In consideration for its appointment and designation as manager and operator of the parking facilities, the Harrisburg Parking Authority agreed to pay \$2,850,000 to the Authority. Revenue from this agreement is being recognized by the Authority ratably over the life of the agreement. Deferred revenue was \$1,751,562 as of December 31, 2009.

# THE HARRISBURG AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

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### Debt Service Forward Delivery and Swap Agreements

The Authority has entered into seven derivative product agreements, which consist of debt service forward delivery agreements with a financial intermediary that result in a forward swap of interest earned on amounts placed in the debt service sinking fund and swap agreements. In exchange for cash payments to the Authority at the inception of the agreements totaling approximately \$5,188,198 at December 31, 2009, the financial intermediary has the right, under the debt service forward delivery agreement, to invest the funds on hand in the sinking fund and retain the investment earnings. The amounts received were recorded as deferred revenue in the Authority's financial statements because the substance of these agreements effectively is to pay the Authority currently for interest that normally would be earned in later years. The deferred revenue, resulting from these transactions of \$2,808,576 at December 31, 2009, is being amortized over the respective life of each agreement under a method that approximates the interest method.

Development and service agreement	\$ 1,751,562
Debt service forward delivery and , swap agreements	<u>2,808,576</u>
Total deferred revenue	<u><u>\$ 4,560,138</u></u>

The Authority is still a party to several debt service forward delivery agreements with Lehman Brothers Special Financing, Inc. (Lehman Special Financing) in connection with certain bonds or notes relating to the Authority's Water System and the Authority's Resource Recovery Facility. In the fall of 2008, Lehman Special Financing filed for bankruptcy protection under the U. S. Bankruptcy Code. As of the date hereof, neither the Authority nor Lehman Special Financing has terminated the outstanding debt service forward delivery agreements, with the exception of the agreement on the Series A-1 of 1994 Water Bonds, which was terminated on March 31, 2011 and resulted in the Authority paying \$173,300 to Lehman Special Financing.

In September 2010, the Authority terminated an agreement with JP Morgan Chase Bank, N.A. on the Series A of 1998 Resource Recovery Bonds, which resulted in proceeds to the Authority of \$570,000.

# THE HARRISBURG AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

### 6. LONG-TERM DEBT

The Authority has issued various revenue serial and term bonds to finance various projects and refundings. A schedule of the Authority's bonds and notes outstanding at December 31, 2009 follows:

	Issue Amount	Maturity/ Mandatory Redemption	Interest Rates	Purpose	Guaranteed by the City of Harrisburg	Guaranteed by the County of Dauphin
2008 Covanta Construction Loan	\$ 25,500,000	2009 - 2018	4.00% - 8.00%	To perform the Retrofit completion work	Yes	No
2008 Water Revenue Bonds	69,420,000	2025 - 2031	4.88% - 5.25%	Currently refund the outstanding balance of the Authority's Variable Rate Water Revenue Refunding Bonds, Series A of 2003 and fund a swap termination payment	No	No
2007 Guaranteed Resource Recovery, Limited Obligation Notes:						
Series C	23,920,000	2010	4.50%	Fund the Working Capital Component of the Retrofit Completion	Yes	Yes
Series D	10,765,000	2010	6.00%	Fund the Reimbursement Project	Yes	Yes
2004 Water Revenue Bonds	37,455,000	2005 - 2023	1.5% - 5.0%	Currently refund the Authority's outstanding Water Revenue Refunding Bonds, Series A-1, A-2, and A-3 of 1994 and payment of 2004 swap termination payment	No	No
2003 Guaranteed Resource Recovery Revenue Bonds:						
Series A	22,555,000	2018 - 2034	5.50% - 6.25%	Advance refund or otherwise retire all of the outstanding 1998D Bonds and all of the outstanding 2000 Notes; and to fund working capital to assist in paying costs of compliance with the Derating Agreements and of maintaining the site of the Waste Management Facility	Yes	No

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## NOTES TO FINANCIAL STATEMENTS

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	Issue Amount	Maturity/ Mandatory Redemption	Interest Rates	Purpose	Guaranteed by the City of Harrisburg	Guaranteed by the County of Dauphin
2003 Guaranteed Resource Recovery Revenue Bonds:						
Series D1 and D2	96480000	2017 - 2033	variable	Financing the costs of the Retrofit	Yes	Yes
Series E	14,500,000	2009 - 2017	4.45% - 5.05%	Paying transition costs of operating the Transfer Station and maintaining the Facility during the shutdown of the Resource Recovery Facility and the construction period for the Retrofit	Yes	Yes
Series F	14,020,000	2009 - 2017	4.50% - 5.10%	Providing working capital to the Authority to pay estimated interest on outstanding 1998A Bonds, 2002 Notes and 2003 Notes during the construction period for the Retrofit	Yes	No
2003 Guaranteed Resource Recovery Revenue Notes:						
Series B	29,085,000	2025 - 2031	3.70% - 4.10%	Advance refund or otherwise retire a portion of the 1998A Bonds and a portion of the outstanding 2000A Notes	Yes	No
Series C	24,285,000	2031 - 2034	5.00%	Advance refund or otherwise retire a portion of the 1998A Bonds, all of the outstanding 1998B Bonds and 1998C Bonds, a portion of the 2000A Notes and all of the outstanding 2000B Notes	Yes	No
2002 Water Revenue Bonds:						
Series A	15,340,000	2023, 2024, 2029	5.00%	Advance refund 1999 Series A Water Revenue Bonds, purchase 1999 Series B Water Revenue Refunding Bonds, current refund debt service on the 1994 Bonds due and payable in 2002	No	No
Series B	23,035,000	2011 - 2017	variable	Purchase 1999 Series C Water Revenue Refunding Bonds	No	No
Series C	7,700,000	2029	variable	Fund the 2002 Debt Service Reserve Fund Account	No	No
Series D	2,750,000	2010 - 2011	5.60% to 5.65%	Refund the debt service on the outstanding 1994 Bonds due and payable in 2003	No	No
2002 Guaranteed Resource Recovery Notes:						
Series A	17,000,000	2007 - 2022	5.72%	Fund acquisition of equipment, engineering studies, and working capital	Yes	No

# THE HARRISBURG AUTHORITY

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	<u>Issue Amount</u>	<u>Maturity/ Mandatory Redemption</u>	<u>Interest Rates</u>	<u>Purpose</u>	<u>Guaranteed by the City of Harrisburg</u>	<u>Guaranteed by the County of Dauphin</u>
2001 Water Revenue Bonds: Series A	7,400,000	2002 - 2015	3.40% - 5.75%	Capital additions to the water system; completion of the water meter project	No	No
1998 Resource Recovery Revenue Bonds: Series A	33,110,000	2006 - 2021	4.45% - 5.00%	Advance refund remaining 1993 Series A Resource Recovery Revenue Bonds	Yes	No
1998 Guaranteed Sewer Revenue Notes: Series A	1,893,000	1999 - 2018	variable	Finance projects related to the sewage collection system	Yes	No
Series B	1,864,000	1999 - 2017	1.536% - 3.071%	Finance projects related to the sewage collection system	Yes	No
1992 Sewer Revenue Bonds	25,310,000	thru 2012	6.00% - 6.80%	Funds for future refunding of a portion of the 1988 Series A & B Sewer Revenue Bonds	No	No
1989 Sewer Revenue Bonds: Series 2 & 3	25,375,000	thru 2012	6.80% - 7.15%	To refund a portion of the 1988 Series A & B Sewer Revenue Bonds	No	No

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### Variable Rate Issues and Interest Rate Swaps

In connection with its incurrence of long-term indebtedness, the Authority, from time to time, has issued several series of variable rate bonds and notes and entered into related interest rate swap and cap agreements with respect to certain of these variable rate issues. A description of the variable rate issues and, where applicable, the related interest rate swap or swaps, and cap follows.

### 2003 Water Revenue Bonds, Series A

*Objective of the interest rate swaps* – In October 1999, the Authority entered into a contract with Societe Generale, New York Branch (Societe Generale), obligating the Authority to issue on June 11, 2003, its fixed rate, Water Revenue Refunding Bonds, Series A of 2003 in the principal amount of \$49,725,000 (2003 Series A Fixed Rate Bonds). Proceeds of the 2003 Series A Fixed Rate Bonds were to be applied to redeem in July 2003 the Authority's 1993 Water Revenue Bonds, Series B, then outstanding. To reduce the amount of debt service to be paid on the 2003 Series A Fixed Rate Bonds, the Authority by agreement reached with Societe Generale on April 12, 2002, terminated its obligation to issue the 2003 Series A Fixed Rate Bonds and agreed to pay Societe Generale a termination payment of \$6,175,000. To fund the termination payment and the current refunding of the 1993 Water Revenue Bonds, Series B, the Authority on April 12, 2002 entered into a forward bond purchase agreement to issue its Variable Rate Water Revenue Refunding Bonds, Series A of 2003 (2003 Water Revenue Bonds, Series A) on or about July 10, 2003.

On April 12, 2002, the Authority, in order to lock in fixed borrowing costs for its 2003 Water Revenue Bonds, Series A, also entered into a forward interest swap agreement with Societe Generale; on that date, Societe Generale paid the Authority an upfront payment of \$1,415,000. Under the swap agreement, Societe Generale agreed to pay to the Authority (i) amounts calculated at a floating rate per annum based on 67 percent of one-month LIBOR, on a notional amount equal to a specified portion of the scheduled principal amount of the 2003 Water Revenue Bonds, Series A, and (ii) amounts calculated at a floating rate per annum determined under the Securities Industry and Financial Markets Association Municipal Swap Index (SIFMA Index) on a notional amount equal to another specified portion of the scheduled principal amount of the 2003 Water Revenue Bonds, Series A. The Authority is obligated to pay Societe Generale amounts calculated at respective agreed-upon fixed rates based upon the separate notional amounts described above, and which fixed rates were determined in April 2002 and were calculated to take into account the upfront payment of \$1,415,000 paid by Societe Generale to the Authority. The forward interest rate swap agreement was scheduled to become effective on or about July 10, 2003, the anticipated issue date of the 2003 Water Revenue Bonds, Series A. The purpose of entering into the forward interest rate swap was to hedge against the risk of interest rate changes with respect to the 2003 Water Revenue Bonds, Series A, and to fix its effective borrowing costs with respect to

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the 2003 Water Revenue Bonds, Series A hedged by the forward interest rate swap agreement. The forward interest rate swap agreement became effective on July 11, 2003, the date on which the Authority issued the 2003 Water Revenue Bonds, Series A, in the principal amount of \$56,535,000.

*Terms* – As described above, the interest rate swap agreement which the Authority entered into with respect to its 2003 Water Revenue Bonds, Series A consisted of two separate components, a LIBOR-based swap with \$25,275,000 of outstanding principal amount of 2003 Water Revenue Bonds, Series A as the notional amount (LIBOR Swap) and a SIFMA-based swap with \$25,605,000 of outstanding principal amount of 2003 Water Revenue Bonds, Series A as the notional amount (SIFMA Swap). Under the LIBOR Swap, the Authority paid Societe Generale interest on the corresponding notional amount at a fixed rate of 4.710% per annum, and received from Societe Generale interest on such notional amount at a floating rate equal to 67% of one-month LIBOR. Under the SIFMA Swap, the Authority paid Societe Generale interest on the corresponding notional amount at a fixed rate of 5.105% per annum, and received in return interest at a floating rate equal to the SIFMA Index. Under the LIBOR Swap and the SIFMA Swap, the Authority had effectively hedged \$50,880,000 principal amount of its 2003 Water Revenue Bonds, Series A, while \$5,655,000 principal amount of such Bonds remains unhedged. The fixed rates payable by the Authority under the LIBOR Swap and the SIFMA Swap were determined in April 2002 when the Authority entered into the forward interest rate swap agreement with Societe Generale and take into account Societe Generale's upfront payment of \$1,415,000 paid to the Authority in April 2002. The notional amount of each of the LIBOR Swap and the SIFMA Swap decreased as the outstanding principal amount of the corresponding 2003 Water Revenue Bonds, Series A decreases through mandatory sinking fund redemption.

*Termination Event* - Both the LIBOR Swap and the SIFMA Swap were terminated with the issuance of the Authority's Water Revenue Refunding Bonds, Series of 2008 (2008 Water Revenue Bonds), issued on August 22, 2008. A portion of the 2008 Water Revenue Bonds were used to pay a \$9,742,000 termination fee.

*Objective of the interest rate swaps* – In August 2006, the Authority entered into two Constant Maturity Swaps with Deutsche Bank AG, New York Branch (Deutsche Bank) to enhance the 2003A interest rate swap agreements with the objective to increase the expected cash flows and effectively lower the overall cost of borrowing of the 2003 Water Revenue Bonds, Series A by converting the tenor of the interest rate on the Societe Generale payment leg of each of the underlying swaps from receiving a short-term rate to a long-term rate. The Constant Maturity Swaps became effective on July 15, 2007 and have been transferred to the 2008 Water Revenue Bonds.

*Terms* – The Constant Maturity Swaps, which the Authority entered into with respect to its 2008 Water Revenue Bonds, consist of two separate components, a LIBOR-based Constant

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Maturity Swap with \$25,275,000 of outstanding principal amount of 2008 Water Revenue Bonds as the notional amount (LIBOR CMS) and a SIFMA-based Constant Maturity Swap with \$25,020,000 of outstanding principal amount of 2008 Water Revenue Bonds as the notional amount (SIFMA CMS). Under the LIBOR CMS, the Authority receives interest on the corresponding notional amount at a floating rate of 60.15% of the ten-year USD-ISDA-Swap Rate (ten-year LIBOR swap rate) and pays Deutsche Bank a floating rate based on 67% of one-month LIBOR. Under the SIFMA CMS, the Authority receives interest on the corresponding notional amount at a floating rate of 85.44% of USSMQ10 (ten-year SIFMA swap rate) and pays Deutsche Bank a floating rate based on the SIFMA Index. The notional amount of each of the LIBOR CMS and SIFMA CMS decreases as the outstanding principal amount of the corresponding 2008 Water Revenue Bonds decreases through mandatory sinking fund redemption. Effective November 17, 2008, both the LIBOR CMS and SIFMA CMS were suspended until January 15, 2011. For executing these suspensions, the Authority received a total of \$1.25 million from Deutsche Bank.

*Fair value* – As of December 31, 2009, it would cost the Counterparty \$804,762 and \$400,572 to terminate the LIBOR CMS and the SIFMA CMS, respectively, with Deutsche Bank. The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the swaps. Where applicable, future payments are adjusted taking into account volatilities, time, and other variables.

*Credit risk* – As of December 31, 2009, the Authority was exposed to credit risk in the amount of the LIBOR CMS and the SIFMA CMS agreement's fair value. Deutsche Bank was rated A+ by Standard & Poor's and Aa1 by Moody's Investors Service as of December 31, 2009. To mitigate the potential for credit risk, if Deutsche Bank's credit rating falls below A/A2, the parties agree to negotiate in good faith a credit support annex to the Constant Maturity Swap Agreement, which would require Deutsche Bank to collateralize its obligations with a combination of cash, Treasury Securities, and Agency Notes.

*Yield Curve Risk* – The Constant Maturity Swaps expose the Authority to yield curve risk should the following occur: (i) 67% of one-month LIBOR minus 60.15% of the ten-year USD-ISDA-Swap rate become positive and/or (ii) the SIFMA Index minus 85.44% of the ten-year SIFMA Swap Rate (USSMQ10) become positive. The negative effects of the yield curve risk are caused by an inversion of the associated yield curve resulting in the Authority paying a higher overall cost of borrowing.



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*Swap payments and associated debt* - Effective November 19, 2008, both the LIBOR CMS and SIFMA CMS were suspended until January 15, 2011, for a payment to the Authority in the amount of \$1,250,000.

*Termination risk* - The LIBOR CMS and the SIFMA CMS were terminated in March 2010 and the Authority received \$673,200 and \$372,200, respectively.

### Series of 2004, Water Revenue Refunding Bonds

*Objective of the interest rate swaps* - In August 2004, the Authority issued Series of 2004, Water Revenue Refunding Bonds, in the principal amount of \$37,455,000 (2004 Water Revenue Bonds). The Series of 2004 Bonds bear interest at a fixed rates ranging from 1.5% to 5%. In an effort to lower the Authority's net interest cost on the 2004 Water Revenue Bonds, the Authority entered into the 2005 Basis Swap, on the then outstanding bonds, in the notional amount of \$37,360,000.

In August 2006, the Authority amended the 2005 Basis Swap with Bank of America (formerly Merrill Lynch) with the objective to enhance the 2005 Basis Swap by increasing the expected cash flows on the Basis Swap and effectively lowering the overall cost of borrowing of the 2004 Water Revenue Refunding Bonds. The amendment converts the tenor of the interest rate on Bank of America's payment leg of the Basis Swap from a short-term rate to a long-term rate.

*Terms* - Under the 2005 Basis Swap, the Authority periodically pays an amount to Bank of America equal to interest on an amount corresponding to the then outstanding aggregate principal amount of the 2004 Water Revenue Bonds computed on the basis of the then applicable SIFMA Municipal Swap Index (SIFMA Index) and Bank of America periodically pays an amount to the Authority equal to interest on the Notional Amount computed on the basis of 50 basis points plus 67% of the monthly LIBOR Index. The notional amount of the 2005 Basis Swap decreases as the outstanding principal amount of the corresponding 2004 Water Revenue Bonds decreases through maturing principal.

The 2006 amendment converts the Authority's receipt rate from 67% of one-month LIBOR plus a spread of 50 basis points to 69% of the five-year USD-ISDA-Swap Rate (five-year LIBOR Swap Rate). The amendment became effective on July 15, 2007.

*Fair value* - As of December 31, 2009, it would cost Bank of America \$1,646,588 to terminate the 2005 Basis Swap, as amended, with the Authority. The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest

# THE HARRISBURG AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the swaps.

*Credit risk* – As of December 31, 2009, the Authority is exposed to credit risk in the amount of the swap agreement's fair value. Bank of America was rated A by Standard & Poor's and A2 by Moody's Investors Service as of December 31, 2009. To mitigate the potential for credit risk, if Bank of America's credit rating falls below A2/A, the parties agree to negotiate in good faith a credit support annex to the swap agreement, which would require Bank of America to collateralize its obligations with a combination of cash, Treasury Securities, and Agency Notes.

*Basis risk* – The amended 2005 Basis Swap exposes the Authority to basis risk because the Authority is receiving payments based on 69% of the five-year LIBOR Swap Rate from July 15, 2007 to the Termination Date of July 15, 2023 while making payments to Bank of America based on the SIFMA index. The Authority is receiving payments based on a taxable rate which may be different from the amount the Authority pays to Bank of America, which is based on the SIFMA Index, a tax-exempt rate. As of December 31, 2009, the interest rate the Authority was paying under the 2005 Basis Swap was .25 percent, where as the interest the Authority was receiving at 69% of the five-year LIBOR Swap Rate was 2.07 percent.

*Termination risk* – The 2005 Basis Swap was terminated in February 2010 and the Authority received \$1,101,045.

### 2003 Guaranteed Resource Recovery Revenue Bonds, Series D1 and D2

*Objective of the interest rate swaps* – The Authority's asset/liability strategy is to have a combination of fixed and variable-rate debt. On December 30, 2003, the Authority issued its \$96,480,000 Guaranteed Resource Recovery Facility Revenue Bonds, Series D of 2003 (2003 Resource Recovery Bonds, Series D) consisting of \$31,480,000 Subseries D-1 (2003 D-1 Bonds) and \$65,000,000 Subseries D-2 (2003 D-2 Bonds). The 2003 D-1 Bonds initially bear interest at a fixed rate of 4.00% to December 1, 2008, and the 2003 D-2 Bonds at a 5.00% fixed rate to December 1, 2013. After the expiration of these respective initial rate periods, the 2003 D-1 and D-2 Bonds are subject to conversion to different interest rates for different interest rate periods. On December 1, 2008, the Authority remarketed and converted \$31,280,000 Guaranteed Resource Recovery Facility Revenue Bonds, Subseries D-1 of 2003, to a long-term rate period of December 1, 2008 to December 1, 2010 with a coupon rate of 6.75%. On December 1, 2010, the Subseries D-1 of 2003 Bonds were remarketed to a fixed rate of 5.25% through December 1, 2013. To convert the interest rate on the 2003 D-1 and 2003 D-2 Bonds to a synthetic variable rate, the Authority entered into fixed-to-floating interest rate swaps, thereby achieving a variable rate while eliminating the need for a liquidity facility and annual remarketing services, and avoiding basis risk associated with the

# THE HARRISBURG AUTHORITY

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weekly remarketing of its variable rate debt, had it issued the 2003 D-1 Bonds and 2003 D-2 Bonds as weekly floating rate bonds.

*Terms* – With respect to its 2003 Resource Recovery Bonds, Series D, the Authority entered into an interest rate swap agreement with Royal Bank of Canada (RBC), which swap agreement consists of two components: (i) a swap with the outstanding principal amount of the 2003 D-1 Bonds to December 1, 2008 as the notional amount (D-1 Swap) and (ii) a swap with the outstanding principal amount of the 2003 D-2 Bonds to December 1, 2013 as the notional amount (D-2 Swap). Under the D-1 Swap, which terminated on December 1, 2008, the Authority paid RBC floating amounts calculated by applying a floating rate per annum determined by reference to the SIFMA Index, and the Authority received fixed amounts calculated by applying a fixed rate of 2.66% per annum on the notional amount under the D-1 Swap. Under the D-2 Swap, scheduled to terminate on December 1, 2013, the Authority pays interest on the notional amount under the D-2 Swap at a floating rate determined by reference to the SIFMA Index, and receives interest on such notional amount at a rate of 3.37% per annum.

The D-1 Swap contained an embedded interest rate cap, providing that the floating rate to be paid by the Authority shall not exceed 12% to June 1, 2006, and shall not exceed 6% from June 1, 2006 to the D-1 Swap termination date of December 1, 2008. The D-2 Swap contains a similar embedded cap, capping at 12% the floating rate to be paid by the Authority to June 1, 2006, and providing a 6% cap from June 1, 2006 to December 1, 2013, the termination date of the D-2 Swap. The Authority also entered into an interest rate cap agreement (D-1/D-2 Cap) with RBC, which was to become effective on December 1, 2008. The D-1/D-2 Cap provided that RBC would pay the excess, if any, between the SIFMA Index and 6% on a notional amount equal to the scheduled principal amount of the D-1 Bonds and the D-2 Bonds outstanding after December 1, 2008 and December 1, 2013, respectively. In May 2004, the Authority and RBC amended the D-1/D-2 Cap to provide for RBC to pay the excess between 68% of LIBOR and 6%, rather than the excess between SIFMA and 6%. The Authority received \$1,106,000 as a result of this amendment.

On August 31, 2005, the Authority elected to supplement the D-1 and D-2 Swaps in order to effectively fix the interest rate on its obligations through the final maturity date of the 2003D Bonds scheduled to be outstanding from time to time (initially \$96,480,000). The new agreement (2005 Swap), which the Authority entered into with RBC, with a notional amount equal to the principal amount of the 2003D Bonds, \$96,480,000, consists of a variable to fixed interest rate swap. The 2005 Swap provides, effective June 1, 2006 and continuing until December 1, 2033, the Authority pay a fixed rate not exceeding 3.35% and (i) receive from June 1, 2006 to May 31, 2008 the same SIFMA-based variable rate and (ii) receive from June 1, 2008 to December 1, 2033 a LIBOR-based variable rate equal to 68% of one month LIBOR.

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# THE HARRISBURG AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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On April 28, 2006, the Authority terminated the portion of the 2005 Swap from June 1, 2011 through December 1, 2033. Under the revised agreement, effective June 1, 2006, the Authority pays a fixed rate not exceeding 3.35% through June 1, 2011 and (i) receives SIFMA-based variable rate through June 1, 2008 and (ii) receives 68% of one-month LIBOR from June 1, 2008 to June 1, 2011. As a result of the partial termination, the Authority received \$4,027,000.

*Fair value* – As of December 31, 2009, it would cost the Counterparty \$4,005,204 to terminate the D-2 Swap and the embedded D-2 Cap. The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the swaps.

As of December 31, 2009, it would cost the Authority \$3,851,966 to terminate the D-1/D-2 Cap. The Authority is obligated to make semi-annual payments of \$284,616 beginning December 1, 2006 to and including December 1, 2033 for a total obligation of \$11,707,282 as payment for the D-1/D-2 Cap. These payments are included as a component of interest expense as paid.

As of December 31, 2009, it would cost the Authority \$3,977,104 to terminate the 2005 Swap.

*Credit risk* – As of December 31, 2009, the Authority was not exposed to credit risk on the D-1/D-2 Cap, or the 2005 Swap, because they had a negative fair value. However, should interest rates change and the fair value of the swaps become positive, the Authority would be exposed to credit risk in the amount of the swap agreement's fair value. The Authority is exposed to credit risk on the D-2 Swap and the embedded D-2 Cap in the amount of the swap agreement's fair value. As of December 31, 2009, RBC was rated Aaa by Moody's Investors Service and AA- by Standard & Poor's. To mitigate credit risk, if RBC's rating falls below A3 by Moody's Investors Service or A- by Standard & Poor's, the D-2 Swap and the 2005 Swap will terminate.

*Interest rate risk* – The Authority entered into the 2005 Swap and the D-1/D-2 Cap to fix the interest rate as noted above and to limit their exposure to changes in interest rates. However, the D-2 Swap exposes the Authority to interest rate risk as it is highly sensitive to changes in interest rates and the changes will have a material impact on the valuation of the Swap.

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*Termination risk* – The Authority or RBC may terminate the D-2 Swap if the other party defaults under the D-2 Swap. In addition, the Authority may terminate the D-2 Swaps agreement without cause at any time on 20 days notice, at fair market value. If at the time of termination the D-2 Swap has a negative fair value, the Authority would be liable to RBC for that payment.

*Swap payments and associated debt* – Using interest rates as of December 31, 2009, principal and interest requirements of the 2003 D-1 Bonds and 2003 D-2 Bonds fixed-rate debt and net swap payments through the swap termination dates were as follows. As rates set forth in the D-1 and D-2 Swaps agreement vary, net swap payments will vary.

*Basis Risk* –The Authority is subject to basis risk, because the interest on the variable rate arm of the 2005 Swap is based on one month LIBOR and the variable rate interest rate on the D-2 Swap is based on SIFMA. Although expected to correlate, the relationships between different indexes vary and that variance could adversely affect the Authority's calculated payment, and as a result, cost savings or synthetic interest rates may not be realized.

Fiscal Year Ending December 31,	D-1 Bonds		2005	Total
	Principal	Interest	Swap *	
2010	\$ -	\$ 2,124,900	\$ 1,005,156	\$ 3,130,056
2011	-	1,023,100	502,578	1,525,678
	<u>\$ -</u>	<u>\$ 3,148,000</u>	<u>\$ 1,507,734</u>	<u>\$ 4,655,734</u>

\*Computed: (3.35%-.157%) x \$31,480,000 through June 1, 2011

Fiscal Year Ending December 31,	D-2 Bonds		2005		Total
	Principal	Interest	D-2 Swap *	Swap **	
2010	\$ -	\$ 3,250,000	\$ (2,028,000)	\$ 2,075,450	\$ 3,297,450
2011	-	3,250,000	(2,028,000)	1,037,725	2,259,725
2012	-	3,250,000	(2,028,000)	-	1,222,000
2013	-	3,250,000	(2,028,000)	-	1,222,000
	<u>\$ -</u>	<u>\$ 13,000,000</u>	<u>\$ (8,112,000)</u>	<u>\$ 3,113,175</u>	<u>\$ 8,001,175</u>

\*Computed: (.25%-3.37%) x \$65,000,000

\*\*Computed: (3.35%-.157%) x \$65,000,000 through June 1, 2011

*Subsequent Event* – As of December 16, 2011, it would cost the Counterparty \$3,759,899 to terminate the D-2 Swap and the embedded D-2 Cap. As of December 16, 2011, it would cost the Authority \$4,490,155 to terminate the D-1/D-2 Cap.

RBC was rated AA- by Standard & Poor's and Aa1 by Moody's Investor Service as of December 16, 2011.

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### 2003 Guaranteed Resource Recovery Revenue Notes, Series B

These Notes bear interest at a fixed rate of 3.70 percent through June 15, 2010. Thereafter, it is expected that the Notes will bear interest at a tax-exempt weekly rate equal to the SIFMA index plus 75 basis points on each date of determination. The debt service schedule on the following pages uses a rate of 4.1 percent for debt service requirements subsequent to June 15, 2010.

### 2002 Water Revenue Bonds, Series B

These Bonds bear interest at a tax-exempt weekly rate, .41 percent at December 31, 2009.

### 2002 Water Revenue Bonds, Series C

These Bonds bear interest at a taxable weekly rate, .7 percent at December 31, 2009.

### 1998 Guaranteed Sewer Revenue Notes, Series A

These Notes bear interest at a variable rate, 2.4375 percent at December 31, 2009.

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The following table presents annual principal and interest payments for long-term debt outstanding at December 31, 2009:

	2010	2011	2012	2013
Bonds outstanding:				
Water Revenue Bonds:				
Series of 2008	\$ 3,555,300	\$ 3,555,300	\$ 3,555,300	\$ 3,555,300
Series of 2004 (C)	1,954,748	1,950,060	1,955,872	1,956,080
Series A of 2002	767,000	767,000	767,000	767,000
Series B of 2002 (B)	94,444	1,964,444	2,676,776	2,926,156
Series C of 2002 (B)	53,900	53,900	53,900	53,900
Series D of 2002	2,394,255	538,815	-	-
Series A of 2001	734,775	739,275	743,225	740,162
Resource Recovery Revenue Bonds:				
Series A of 2003	1,294,525	1,294,525	1,294,525	1,294,525
Series D of 2003 (A)	6,427,506	3,785,403	2,245,100	2,245,100
Series E of 2003	2,099,205	2,099,458	2,096,818	2,096,775
Series F of 2003	2,029,490	2,031,490	2,030,565	2,027,535
Series A of 1998	600,170	558,250	558,250	558,250
Sewer Revenue Bonds:				
Series of 1992 1st	1,170,000	1,165,000	1,165,000	-
Series of 1992 2nd	565,000	565,000	565,000	-
Series of 1989 2nd	1,170,000	1,165,000	1,165,000	-
Series of 1989 3rd	565,000	565,000	565,000	-
Total principal and interest, bonds	<u>\$ 25,475,318</u>	<u>\$ 22,797,920</u>	<u>\$ 21,437,331</u>	<u>\$ 18,220,783</u>
Less:				
Interest				
Unamortized premium				
Unamortized deferred losses on refunding				
Total bonds outstanding, net of premium and deferred losses on refunding				
Notes payable:				
Guaranteed Resource Recovery Revenue Notes:				
Series C of 2007	\$ 23,920,000	\$ -	\$ -	\$ -
Series D of 2007	10,765,000	-	-	-
Series B of 2003	1,076,145	1,192,485	1,192,485	1,192,485
Series C of 2003	1,214,250	1,214,250	1,214,250	1,214,250
Series A of 2002	1,652,377	1,656,562	1,659,950	1,656,231
Guaranteed Sewer Revenue Notes:				
Series A and B of 1998 (B)	219,180	222,718	226,110	230,344
Total principal and interest, notes	<u>\$ 38,846,952</u>	<u>\$ 4,286,015</u>	<u>\$ 4,292,795</u>	<u>\$ 4,293,310</u>
Less:				
Interest				
Unamortized discount				
Total notes payable, net of premium				
Loans payable:				
Resource Recovery construction loan	<u>\$ 1,912,500</u>	<u>\$ 1,868,537</u>	<u>\$ 2,374,150</u>	<u>\$ 2,374,150</u>
Less:				
Interest				
Total loans payable, net				

(A) - Uses net payments under swap agreements as disclosed earlier in Note 6.

(B) - Uses variable rate in effect at December 31, 2009 as disclosed on page 26.

(C) - Does not use net payments under swap agreements as agreement was terminated in February 2010 as disclosed earlier in Note 6.

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2014	2015 to 2019	2020 to 2024	2025 to 2029	2030 to 2034	Total
\$ 3,555,300	\$ 17,776,500	\$ 18,191,500	\$ 57,407,112	\$ 27,103,538	\$138,255,150
1,960,900	20,669,850	27,157,500	-	-	57,605,010
767,000	3,835,000	17,337,750	1,887,500	-	26,895,250
3,194,472	12,703,528	-	-	-	23,559,820
53,900	269,500	269,500	7,969,500	-	8,778,000
-	-	-	-	-	2,933,070
741,425	1,501,500	-	-	-	5,200,362
1,294,525	6,664,050	19,722,025	3,051,800	9,450,000	45,360,500
3,135,600	27,129,763	36,955,161	38,331,925	31,899,814	152,155,372
2,097,693	5,630,404	-	-	-	16,120,353
2,030,680	5,477,305	-	-	-	15,627,065
558,250	9,012,750	4,796,250	-	-	16,642,170
-	-	-	-	-	3,500,000
-	-	-	-	-	1,695,000
-	-	-	-	-	3,500,000
-	-	-	-	-	1,695,000
<u>\$ 19,389,745</u>	<u>\$110,670,150</u>	<u>\$124,429,686</u>	<u>\$108,647,837</u>	<u>\$ 68,453,352</u>	519,522,122
					193,642,122
					(5,578,985)
					<u>30,206,203</u>
					<u>\$301,252,782</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23,920,000
-	-	-	-	-	10,765,000
1,192,485	5,962,425	5,962,425	27,318,760	6,313,960	51,403,655
1,214,250	6,071,250	6,071,250	6,071,250	28,648,500	52,933,500
1,661,717	8,314,109	4,993,459	-	-	21,594,405
235,394	881,846	-	-	-	2,015,592
<u>\$ 4,303,846</u>	<u>\$ 21,229,630</u>	<u>\$ 17,027,134</u>	<u>\$ 33,390,010</u>	<u>\$ 34,962,460</u>	162,632,152
					57,912,830
					830,811
					<u>\$103,888,511</u>
<u>\$ 2,374,150</u>	<u>\$ 11,870,748</u>	<u>\$ 4,154,762</u>	<u>\$ -</u>	<u>\$ -</u>	\$ 26,928,997
					7,504,997
					<u>\$ 19,424,000</u>

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# THE HARRISBURG AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

Long-term liability activity for the year ended December 31, 2009 was as follows:

	Beginning Balance at January 1, 2009	Additions	Accretion/ Amortization	Reductions	Ending Balance at December 31, 2009	Amounts Due Within One Year
Loans payable	\$ 8,233,000	\$ 12,466,000	\$ -	\$ (1,275,000)	\$ 19,424,000	\$ 1,912,500
Notes payable	105,634,299	-	-	(914,977)	104,719,322	35,648,250
Bonds payable	332,720,000	-	-	(6,840,000)	325,880,000	9,240,000
Total loans, notes, and bonds payable	446,587,299	12,466,000	-	(9,029,977)	450,023,322	46,800,750
Less:						
Unamortized premium (discount)	3,240,519	-	1,507,655	-	4,748,174	-
Deferred loss on refunding	(33,290,715)	-	3,084,512	-	(30,206,203)	-
	<u>\$ 416,537,103</u>	<u>\$ 12,466,000</u>	<u>\$ 4,592,167</u>	<u>\$ (9,029,977)</u>	<u>\$ 424,565,293</u>	<u>\$46,800,750</u>

During 2007, the Authority entered into a First Amendment and Management and Professional Services Agreement with a waste management facility operator (operator). As part of that agreement, the operator agreed to advance the costs incurred in the retrofit completion up to \$25,500,000. At December 31, 2009, the Authority had drawn down \$19,424,000. This loan constitutes subordinate debt of the Authority pursuant to the provisions of the Authority's various debt indentures. No interest accrues until July 1, 2011, at which time simple interest begins to accrue at the rate of 4% per annum until July 1, 2012 and at a rate of 8% per annum thereafter. Interest is payable beginning October 1, 2011 and continuing thereafter in quarterly installments due and payable on the first day of each calendar quarter. Principal is to be paid beginning on July 1, 2009 in quarterly installments due and payable on the first day of each calendar quarter based on a 10-year, mortgage-style amortization schedule. This loan is guaranteed by the City. Refer to Note on Commitments and Contingencies for more information.

During the year ended December 31, 2010, the Authority authorized the optional redemption of the 1989 Sewer Revenue Bonds, Series 2 and 3. As such, both Series of Bonds were redeemed on April 1, 2010.

During the year ended December 31, 2010, the County of Dauphin (County), on behalf of the Authority, paid the debt service due on the 2007 Guaranteed Resource Recovery Limited

# THE HARRISBURG AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

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Obligation Notes, Series C and D. Refer to Note on Commitments and Contingencies for more information.

### Defeased Debt

The Authority has, from time to time, defeased certain debt by placing the proceeds of new debt in an irrevocable trust to provide for all future debt service payments on the old debt. The trust account assets and the liability of the defeased debt are not included in the Authority's financial statements. At December 31, 2009, the following defeased debt was outstanding:

Water Revenue Bonds, Series A of 1999	\$ 4,510,000
Seventh Street Office & Parking Revenue Bonds, Series A of 1998	11,765,000
Seventh Street Office & Parking Revenue Bonds, Series B of 1998	6,185,000
Resource Recovery Bonds, Series A of 1998	15,810,000
Resource Recovery Bonds, Series B of 1998	6,995,000
Resource Recovery Bonds, Series C of 1998	3,125,000
Resource Recovery Bonds, Series A of 2000	4,195,000
Resource Recovery Bonds, Series B of 2000	2,835,000
Total outstanding defeased debt	<u>\$ 55,420,000</u>

## 7. SEGMENT INFORMATION

The Authority supports three separate segments. The Water Segment accounts for the provision of basic water service to customers of the Harrisburg Water System. The Sewer Segment accounts for the leasing of the wastewater conveyance and treatment system to the City under a direct financing lease. The Resource Recovery Segment accounts for the activities at the Harrisburg Resource Recovery and Steam Generating Facility (Resource Recovery Facility), which converts waste into energy. Selected segment information as of and for the year ended December 31, 2009 is as follows:

# THE HARRISBURG AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

### YEAR ENDED DECEMBER 31, 2009

	Water Segment	Sewer Segment	Resource Recovery Segment
<b>CONDENSED STATEMENT OF NET ASSETS</b>			
<b>Assets:</b>			
Current assets:			
Other current assets	\$ 5,699,917	\$ 2,075,017	\$ 8,895,608
Due to other funds	321,487	-	(421,487)
Due to the City of Harrisburg	-	173,250	-
Total current assets	6,021,404	2,248,267	8,474,121
Restricted assets	34,918,917	10,378,815	15,068,682
Capital assets	66,935,245	-	119,244,692
Advances to the City of Harrisburg	-	1,624,782	-
Other noncurrent assets	4,863,453	1,639,204	8,660,423
<b>Total Assets</b>	<b>\$ 112,739,019</b>	<b>\$ 15,891,068</b>	<b>\$ 151,447,918</b>
<b>Liabilities:</b>			
Current liabilities:			
Other current liabilities	\$ 551,706	\$ -	\$ -
Due to the City of Harrisburg	1,029,479	-	5,279,824
Due to bond insurer	-	-	630,474
Due to County	-	-	2,329,367
Total current liabilities	1,581,185	-	8,239,665
Liabilities payable from restricted assets	6,005,277	3,706,768	46,023,797
Noncurrent liabilities	140,291,511	7,224,576	235,299,294
Due to the City of Harrisburg	341,428	-	24,760
<b>Total Liabilities</b>	<b>148,219,401</b>	<b>10,931,344</b>	<b>289,587,516</b>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	(38,662,654)	-	(134,081,167)
Restricted	1,136,443	10,378,815	-
Unrestricted	2,045,829	(5,419,091)	(4,058,431)
<b>Total Net Assets</b>	<b>(35,480,382)</b>	<b>4,959,724</b>	<b>(138,139,598)</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 112,739,019</b>	<b>\$ 15,891,068</b>	<b>\$ 151,447,918</b>
<b>CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS</b>			
Operating revenues	\$ 17,189,742	\$ 125,000	\$ 25,032,944
Operating expenses:			
Operating	8,805,327	-	21,241,253
Administration	400,000	160,000	221,299
Depreciation	2,169,925	-	4,810,305
Total operating expenses	11,375,252	160,000	26,272,857
Operating Income (Loss)	5,814,490	(35,000)	(1,239,913)
Non-operating revenues (expenses):			
Investment income	101,924	40,741	538,646
Lease rental income	-	414,977	-
Miscellaneous income (expense)	7,660	(594)	(112,486)
Transfers to the City sewer operating fund	-	(4,586,313)	-
Interest expense	(8,489,206)	(880,305)	(15,647,403)
Amortization of bond issuance costs	(446,538)	(21,648)	(1,474,789)
Total non-operating revenues (expenses)	(8,826,160)	(5,033,142)	(16,696,032)
Change in Net Assets before Transfers	(3,011,670)	(5,068,142)	(17,935,945)
Transfers in	-	-	310,824
Change in Net Assets	(3,011,670)	(5,068,142)	(17,625,121)
Net assets - January 1, 2009	(32,468,712)	10,027,866	(120,514,477)
Net assets - December 31, 2009	<b>\$ (35,480,382)</b>	<b>\$ 4,959,724</b>	<b>\$ (138,139,598)</b>

**THE HARRISBURG AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
YEAR ENDED DECEMBER 31, 2009

CONDENSED STATEMENT OF CASH FLOWS	Water Segment	Sewer Segment	Resource Recovery Segment
Net cash provided by (used in) operating activities	\$ 8,975,928	\$ (367,707)	\$ 866,472
Net cash provided by (used in) investing activities	(1,470,294)	8,465,422	10,436,455
Net cash used in non-capital financing activities	-	(3,200,000)	-
Net cash used in capital and related financing activities	(8,294,472)	(4,897,715)	(5,532,212)
Net increase (decrease) in cash and cash equivalents	(788,838)	-	5,770,715
Cash and cash equivalents, January 1, 2009	4,699,662	8,076	2,786,315
Cash and cash equivalents, December 31, 2009	<u>\$ 3,910,824</u>	<u>\$ 8,076</u>	<u>\$ 8,557,030</u>

At December 31, 2009, the Authority has net asset deficits in the Water and Resource Recovery segments, primarily due to the Authority not charging enough to cover depreciation expense incurred since acquisition of the Water System and Resource Recovery Facility and not funding amortization of bond discounts, deferred bond issuance costs, and deferred losses on refundings. Management anticipates that the deficits will be reduced in the Water segment through future profitability improvements. Notes 11 and 14 discuss the deficit in the Resource Recovery segment.

## 8. NON-RECOURSE DEBT ISSUES

As discussed in Note 1, the following non-recourse debt issues were outstanding at December 31, 2009:

Haverford Township, Series of 2002	\$ 4,540,000
Cumberland Valley School District, Series of 2002	19,420,000
Township of Uwchlan, Series of 2002	2,095,000
Township of West Brandywine, Series of 2002	4,180,000
Harrisburg University, Series B of 2007	60,225,000
	<u>\$ 90,460,000</u>

# THE HARRISBURG AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

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### 9. DUE TO THE CITY OF HARRISBURG

The Authority has entered into a management agreement with the City to operate the Authority's Water System. The Water System's management agreement expires in 2020 (subject to annual renewal thereafter). The management agreement requires that the Mayor prepare an operating expenses budget for adoption by the City Council, with final approval by the Authority and the inclusion of such budgeted operating expenses in the Authority's annual budget. The Authority incurred \$9,205,327 in expenses under the Water System management agreements in 2009.

At December 31, 2009, \$1,370,907 is included in the amount due to the City for the Water segment and \$5,304,584 is included in the amount due to the City for the Resource Recovery segment. Additionally, the Authority has annually agreed to adopt Water rates sufficient to pay the operating expense budgets as approved as well as administrative and debt service expenses. Finally, the City has paid debt service costs, on behalf of the Authority, for debt related to the Authority's Resource Recovery Facility. Those payments are due back to the City under various reimbursement agreements entered into at the time the debt was issued. Refer to Note on Commitments and Contingencies for more information.

On behalf of the Authority, the City entered into a capital lease for an energy resource management project and turbine equipment at the water treatment plant as well as various equipment purchases for the water treatment plant and the resource recovery facility. For financial reporting purposes, minimum lease payments have been capitalized. The property acquired through the capital lease has a cost and a net book value of \$886,890 and \$247,660, respectively, as of December 31, 2009. The leases expire from March 2011 through December 2017. Amortization on the leased equipment is included in depreciation expense.

# THE HARRISBURG AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

The future minimum lease payments under the capital lease are included in the amount due to the City. The future minimum lease payments under the capital lease and the net present value of the future minimum lease payments at December 31, 2009 are as follows:

2010	\$ 261,851
2011	180,518
2012	97,245
2013	45,020
2014	45,018
2015	7,761
2016	7,762
2017	7,760
Total minimum lease payments	652,935
Amount representing interest	(45,300)
Present value of net minimum lease payments	<u>\$ 607,635</u>

The following represents the amounts due to the City at December 31, 2009:

Resource Recovery segment operating expenses	\$ 201,004
Resource Recovery reimbursement agreement	5,047,146
Water segment operating expenses	819,706
Water capital lease:	
Current portion	209,773
Long-term portion	341,428
Resource Recovery capital lease:	
Current portion	31,674
Long-term portion	24,760
Due to the City of Harrisburg	<u>\$ 6,675,491</u>

### 10. LANDFILL CLOSURE AND POST-CLOSURE CARE COSTS

State and federal laws and regulations require the Authority to properly close and place a final impermeable cover on its Ash Residue Disposal Landfills when they no longer accept waste and to perform certain ongoing maintenance and monitoring activities at the site for up to thirty years after closure. The original estimated total cost of closure and post-closure care

# THE HARRISBURG AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

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costs were \$1,670,206, based on an agreement with the Commonwealth of Pennsylvania pursuant to state regulations and was subject to change with inflation, deflation, technology, or applicable laws and regulations. During 2007, under the original closure and post-closure agreement, the Authority was required by state regulations and its permit to make quarterly payments of \$30,014 to the Consolidated Closure Trust.

On December 31, 2007, the original consolidated trust was terminated and a new account was established. At that time, the Authority estimated the closure and post-closure costs to be \$1,442,617. A variable rate promissory note (Line of Credit) was entered into with a financial institution for \$1,442,617. The line of credit supports the Letter of Credit #1805 issued to the Pennsylvania Department of Environmental Protection. On May 5, 2008, this promissory note was amended to \$2,355,713 based on a revised closure and post-closure cost estimate.

In an effort to extend the life of the landfill, in April 2008, the Authority began mining the ash to recover ferrous and nonferrous metals contained in the ash residue. Beginning in August 2008, the ash from the processed metal was removed from the landfill and taken offsite. This resulted in reduced ash volume thereby further extending the life of the landfill area. To maintain continued ash disposal operations, a plan was prepared to extend the site life of the landfill until an expansion can be permitted and constructed. It is expected to take four years to complete the permitting and initial construction process. During that four-year period, mining and off-site disposal of processed ash will continue, as well as off-site transportation of ash generated by the facility. During 2009, the Authority received a landfill permit extension for another four years. The capacity will last that long, if the Authority continues to remove ash from the landfill for disposal/beneficial use at another landfill, as fast as it is generated at the Harrisburg landfill.

The Authority has accrued \$2,242,262 for landfill closure and post-closure care costs as of December 31, 2009, which represents the use of 95.93% of the estimated capacity of the disposal area. Based on the annual usage at December 31, 2009, the estimated remaining life of the landfill is approximately three years. Under the new closure and post-closure agreement, the Authority is required by state regulations and its permit to make quarterly payments of \$170,000 to the Consolidated Closure Trust. The Authority is in compliance with those requirements at December 31, 2009.

As of December 31, 2009, cash and investments of \$2,210,671 are held for closure and post-closure care expenses. Those funds are reported as restricted assets on the balance sheet.

# THE HARRISBURG AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

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### 11. COMMITMENTS AND CONTINGENCIES

#### Resource Recovery Fund

The rate covenant calculation required under applicable trust indentures pertaining to the Resource Recovery Facility financing has not been met for the year ended December 31, 2009. If the facility fails to generate sufficient revenues to pay debt service on the Resource Recovery Facility Revenue Bonds, Series A, D, E, and F of 2003, the Resource Recovery Facility Revenue Notes, Series B and C of 2003, the Resource Recovery Facility Subordinate Variable Rate Revenue Notes, Series A of 2002, or the Resource Recovery Facility Revenue Bonds, Series A of 1998, or ceases revenue generating operations, or if other monies set aside for such purposes are insufficient, the City will be required to pay principal of and interest on such bonds and notes when due pursuant to respective Guaranty Agreements among the City, the Authority, and the respective trustees for the bonds and notes. The County of Dauphin (County) has provided a secondary guarantee of the Resource Recovery Facility Revenue Bonds, Series D and E of 2003 collectively in the maximum aggregate principal amount not to exceed \$113,000,000 by entering into a County Bond Guaranty Agreement with the Authority and the trustee for such bonds. The Resource Recovery segment has incurred substantial accumulated losses, which have caused the segment to experience cash flow difficulties.

Under the continuing disclosure undertaking, the Authority has covenanted to file its secondary market disclosures within 270 days of the end of their fiscal year. Additionally, the various trust indentures require the Authority to submit its audited financial statements to the trustee within 180 days. On December 13, 2010 and September 29, 2011, the Authority issued a notice of material event with respect to the issuance of the Authority's financial statements for the years ended December 31, 2009 and 2010, stating that neither were completed by the required dates.

Under the trust indentures, the Authority is required to maintain certain minimum balances in the Resource Recovery operating reserve fund. At December 31, 2009, the Authority's balance in the Resource Recovery operating reserve fund was \$220 and the reserve requirement was \$2,993,333. The trust indenture states that if the balance in the Resource Recovery operating reserve fund becomes deficient, the Authority is to restore the balance with twelve substantially equal installments. The Resource Recovery operating reserve was replenished through a transfer from the revenue fund in the amount of approximately \$3 million on July 29, 2010.



# THE HARRISBURG AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

Under the trust indentures, the Authority is required to maintain certain minimum balances in the Resource Recovery debt service reserve funds. At December 31, 2009, the Authority's balances in the debt service reserve funds and the related reserve requirements are as follows:

Bond Series	Balance at December 31, 2009	Reserve Requirement
1998	\$ 3,889,979	\$ 3,900,215
2002	88	800,000
2003A - C	5,408,194	7,200,000
2003D	3,151,276	8,000,000
2003E	1	1,000,000
2003F	1	1,000,000

Deficiencies in the Debt Service Reserve Accounts are to be repaid in not more than 12 substantially equal monthly payments on the first day of the month after the occurrence of such deficiency. As of November 2011, the Authority has not replenished the Debt Service Reserve Accounts.

The Resource Recovery Facility's 2009 budget was approved by the Board of Directors in June 2009. As required under the trust indentures, the budget is required to be approved 30 days prior to the end of the preceding calendar year. Additionally, the 2009 and 2010 consulting engineers' reports, which were due, per the trust indenture, 90 days prior to the end of the calendar year, were not received by the Authority until February 2010 and December 2010, respectively. Finally, management has not instituted a system to calculate the rate covenant requirement noted earlier.

On March 20, 2009, the Authority issued a notice of material event with respect to the Authority's Series A Bonds of 1998. The 1998 Series A, B, and C Debt Service Account did not have sufficient funds to pay the scheduled interest payment of \$280,908 due on the 1998 Series A Bonds on March 1, 2009. The amount of \$86,662 was on deposit with the Trustee with respect to the 1998 Series A Bonds resulting in a deficiency of \$195,346. Pursuant to terms of the trust indenture and the City Bond Guaranty, the Trustee notified the Authority and the City of such deficiency in the 1998 Series A, B, and C Debt Service Account. Accordingly, the City transferred monies to the Trustee to address the deficiency.

On March 5, 2010, the Authority issued a notice of material event with respect to the Authority's Series A Bonds of 1998. The 1998 Series A, B, and C Debt Service Account did not have sufficient funds to pay the scheduled interest payment of \$315,908 due on the 1998 Series A Bonds on September 1, 2009. There were no funds on deposit with the Trustee with respect to the 1998 Series A Bonds resulting in a deficiency of \$315,908. In accordance with

# THE HARRISBURG AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

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the terms of the 1998 Indenture, the Trustee transferred funds from the 1998 Series Debt Service Reserve Account to the 1998 Series A, B, and C Debt Service Account in an amount sufficient to satisfy the deficiency and to enable the Trustee to make the necessary payment of interest on the 1998 Series A Bonds on September 1, 2009.

On March 8, 2010, the Authority issued a notice of material event with respect to the Authority's Series A Bonds of 1998. The 1998 Series A, B, and C Debt Service Account did not have sufficient funds to pay the scheduled interest payment of \$280,085 due on the 1998 Series A Bonds on March 1, 2010. There were no funds on deposit with the Trustee with respect to the 1998 Series A Bonds resulting in a deficiency of \$280,085. In accordance with the terms of the 1998 Indenture, the Trustee transferred funds from the 1998 Series Debt Service Reserve Account to the 1998 Series A, B, and C Debt Service Account in an amount sufficient to satisfy the deficiency and to enable the Trustee to make the necessary payment of interest on the 1998 Series A Bonds on March 1, 2010.

On September 14, 2010, the Authority issued a notice of material event with respect to the Authority's Series A Bonds of 1998. The 1998 Series A, B, and C Debt Service Account did not have sufficient funds to pay the scheduled interest payment of \$320,085 due on the 1998 Series A Bonds on September 1, 2010. There were no funds on deposit with the Trustee with respect to the 1998 Series A Bonds resulting in a deficiency of \$320,085. In accordance with the terms of the 1998 Indenture, the Trustee transferred funds from the 1998 Series Debt Service Reserve Account to the 1998 Series A, B, and C Debt Service Account in an amount sufficient to satisfy the deficiency and to enable the Trustee to make the necessary payment of interest on the 1998 Series A Bonds on September 1, 2010.

On June 22, 2009, the Authority issued a notice of material event with respect to the Authority's Series A Notes of 2002. The 2002 Debt Service Account did not have sufficient funds to pay the scheduled interest payment of \$446,732 due on the 2002 Series A Notes on May 1, 2009. The amount of \$5,749 was on deposit with the Trustee with respect to the 2002 Series A Notes resulting in a deficiency of \$440,983. Pursuant to terms of the trust indenture and the City Note Guaranty, the Trustee notified the Authority and the City of such deficiency in the 2002 Debt Service Account. Accordingly, the City transferred monies to the Trustee to address the deficiency.

On March 8, 2010, the Authority issued a notice of material event with respect to the Authority's Series A Notes of 2002. The 2002 Debt Service Account did not have sufficient funds to pay the scheduled debt service payment of \$1,196,732 due on the 2002 Series A Notes on November 1, 2009. The amount of \$88 was on deposit with the Trustee with respect to the 2002 Series A Notes resulting in a deficiency of \$1,196,644. Pursuant to terms of the trust indenture and the City Note Guaranty, the Trustee notified the Authority and the City of such deficiency in the 2002 Debt Service Account. Under the terms of the City Note Guaranty, the City, as guarantor, was required to fund any deficiency in the 2002 Debt

# THE HARRISBURG AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

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Service Account. The City notified the Trustee that the City was only able to transfer \$396,732, which amount representing a portion of the funds required for the debt service payment due on the 2002 Series A Notes on November 1, 2009. Upon the failure of the City to advance sufficient monies as required under the City Note Guaranty, the Trustee then transferred funds from the 2002 Debt Service Reserve Account of the Debt Service Reserve Fund in the amount of \$799,912 to the 2002 Debt Service Account in order to satisfy the remaining deficiency therein and to enable the Trustee to make the necessary debt service payment the 2002 Series A Notes on November 1, 2009.

On May 4, 2010, the Authority issued a notice of material event with respect to the Authority's Series A Notes of 2002. The 2002 Debt Service Account did not have sufficient funds to pay the scheduled debt service payment of \$425,282 due on the 2002 Series A Notes on May 1, 2010. On April 25, 2010, there were no funds on deposit with the Trustee with respect to the 2002 Series A Notes resulting in a deficiency of \$425,282. Pursuant to terms of the trust indenture and the City Note Guaranty, the Trustee notified the Authority and the City of such deficiency in the 2002 Debt Service Account. Under the terms of the City Note Guaranty, the City, as guarantor, was required to fund any deficiency in the 2002 Debt Service Account. The City notified the Trustee that the City was not able to provide any funds under the City Note Guaranty in order to make the May 1, 2010 payment. Upon the failure of the City to advance funds as required under the City Note Guaranty, the Trustee then transferred funds from the 2002 Debt Service Reserve Account of the Debt Service Reserve Fund in the amount of \$88 to the 2002 Debt Service Account. After transferring funds from the 2002 Debt Service Reserve Fund, the 2002 Debt Service Account was deficient in the amount of \$425,194. In accordance with the 2002 Indenture, the Trustee then notified the 2002 Bond Insurer of the deficiency of funds on deposit in the 2002 Debt Service Account required to make the May 1, 2010 payment and requested that such shortfall be paid upon under the bond insurance policy. The 2002 Bond Insurer paid the amount \$425,194 to the Trustee under the bond insurance policy, which amount, together with other funds on deposit in the 2002 Debt Service Account were sufficient to pay the scheduled debt service payment on May 1, 2010.

On November 3, 2010, the Authority issued a notice of material event with respect to the Authority's Series A Notes of 2002. The 2002 Debt Service Account did not have sufficient funds to pay the scheduled debt service payment of \$1,215,282 due on the 2002 Series A Notes on November 1, 2010. On October 25, 2010, there were no funds on deposit with the Trustee with respect to the 2002 Series A Notes resulting in a deficiency of \$1,215,282. Pursuant to terms of the trust indenture and the City Note Guaranty, the Trustee notified the Authority and the City of such deficiency in the 2002 Debt Service Account. Under the terms of the City Note Guaranty, the City, as guarantor, was required to fund any deficiency in the 2002 Debt Service Account. The City notified the Trustee that the City was not able to provide any funds under the City Note Guaranty in order to make the November 1, 2010 payment. Upon the failure of the City to advance funds as required under the City Note

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Guaranty, the Trustee was required to transfer any funds on deposit in the 2002 Debt Service Reserve Account of the Debt Service Reserve Fund to the 2002 Debt Service Account of the Debt Service Fund. There were no funds on deposit in the 2002 Debt Service Reserve Account of the Debt Service Reserve Fund resulting in a deficiency in the amount of \$1,215,282. In accordance with the 2002 Indenture, the Trustee then notified the 2002 Bond Insurer of the deficiency of funds on deposit in the 2002 Debt Service Account required to make the November 1, 2010 payment and requested that such shortfall be paid upon under the bond insurance policy. The 2002 Bond Insurer paid the amount \$1,215,282 to the Trustee under the bond insurance policy, which amount was sufficient to pay the scheduled debt service payment on November 1, 2010.

On May 2, 2011, the Authority issued a notice of material event with respect to the Authority's Series A Notes of 2002. The 2002 Debt Service Account did not have sufficient funds to pay the scheduled debt service payment of \$402,688 due on the 2002 Series A Notes on May 1, 2011. On April 25, 2011, there were no funds on deposit with the Trustee with respect to the 2002 Series A Notes resulting in a deficiency of \$402,688. Pursuant to terms of the trust indenture and the City Note Guaranty, the Trustee notified the Authority and the City of such deficiency in the 2002 Debt Service Account. Under the terms of the City Note Guaranty, the City, as guarantor, was required to fund any deficiency in the 2002 Debt Service Account. The City notified the Trustee that the City was not able to provide any funds under the City Note Guaranty in order to make the May 1, 2011 payment. Upon the failure of the City to advance funds as required under the City Note Guaranty, the Trustee was required to transfer any funds on deposit in the 2002 Debt Service Reserve Account of the Debt Service Reserve Fund to the 2002 Debt Service Account of the Debt Service Fund. There were no funds on deposit in the 2002 Debt Service Reserve Account of the Debt Service Reserve Fund resulting in a deficiency in the amount of \$402,688. In accordance with the 2002 Indenture, the Trustee then notified the 2002 Bond Insurer of the deficiency of funds on deposit in the 2002 Debt Service Account required to make the May 1, 2011 payment and requested that such shortfall be paid upon under the bond insurance policy. The 2002 Bond Insurer paid the amount \$402,688 to the Trustee under the bond insurance policy, which amount was sufficient to pay the scheduled debt service payment on May 1, 2011.

On November 1, 2011, the Authority issued a notice of material event with respect to the Authority's Series A Notes of 2002. The 2002 Debt Service Account did not have sufficient funds to pay the scheduled debt service payment of \$1,242,688 due on the 2002 Series A Notes on November 1, 2011. On October 25, 2011, there were no funds on deposit with the Trustee with respect to the 2002 Series A Notes resulting in a deficiency of \$1,242,688. Pursuant to terms of the trust indenture and the City Note Guaranty, the Trustee notified the Authority and the City of such deficiency in the 2002 Debt Service Account. Under the terms of the City Note Guaranty, the City, as guarantor, was required to fund any deficiency in the 2002 Debt Service Account. The City notified the Trustee that the City was not able to provide any funds under the City Note Guaranty in order to make the November 1, 2011

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payment. Upon the failure of the City to advance funds as required under the City Note Guaranty, the Trustee was required to transfer any funds on deposit in the 2002 Debt Service Reserve Account of the Debt Service Reserve Fund to the 2002 Debt Service Account of the Debt Service Fund. There were no funds on deposit in the 2002 Debt Service Reserve Account of the Debt Service Reserve Fund resulting in a deficiency in the amount of \$1,242,688. In accordance with the 2002 Indenture, the Trustee then notified the 2002 Bond Insurer of the deficiency of funds on deposit in the 2002 Debt Service Account required to make the November 1, 2011 payment and requested that such shortfall be paid upon under the bond insurance policy. The 2002 Bond Insurer paid the amount \$1,242,688 to the Trustee under the bond insurance policy, which amount was sufficient to pay the scheduled debt service payment on November 1, 2011.

On March 20, 2009, the Authority issued a notice of material event with respect to the Authority's Series A, B, and C Bonds of 2003. The Series of 2003 Debt Service Accounts did not have sufficient funds to pay the scheduled interest payments in the amount of \$647,262, \$538,073, and \$607,125 due on the Series A, B, and C of 2003 Bonds, respectively, on March 1, 2009. The amount of \$16,612, \$16,581, and \$16,596 was on deposit with the Trustee with respect to the Series A, B, and C of 2003 Bonds, respectively, resulting in a deficiency of \$630,650, \$521,492, and \$590,529, respectively. Pursuant to terms of the trust indenture and the City Bond Guaranty, the Trustee notified the Authority and the City of such deficiency in the Series of 2003 Debt Service Accounts. Accordingly, the City transferred monies to the Trustee to address the deficiency.

On March 8, 2010, the Authority issued a notice of material event with respect to the Authority's Series A, B, and C Bonds of 2003. The Series of 2003 Debt Service Accounts did not have sufficient funds to pay the scheduled interest payments in the amount of \$647,262, \$538,073, and \$607,120 due on the Series A, B, and C of 2003 Bonds, respectively, on September 1, 2009. Pursuant to the terms of the Series 2003 A, B, and C Indenture and the City Bond Guaranty, the Trustee notified the Authority and the City of such deficiencies in the Series of 2003 Debt Service Accounts. The Series 2003 A, B, and C Indenture and the City Bond Guaranty provide that if there are insufficient revenues available from the operation of the Authority's Resource Recovery Facility to pay debt service on the Series 2003 A, B, and C Obligations, then the Trustee is to draw upon the City Bond Guaranty for the monies for debt service. The Trustee so notified the City of the respective deficiencies in the Series of 2003 Debt Service Accounts for the September 1, 2009 debt service payment. However, the City notified the Trustee on August 25, 2009 that the City was not able to transfer funds for the debt service payment due on the Series 2003 A, B, and C Obligations on September 1, 2009. Upon the failure of the City to advance monies as required under the City Bond Guaranty, the Trustee then transferred funds from the 2003 Debt Service Reserve Account of the Debt Service Reserve Fund to the Series of 2003 Debt Service Accounts in amounts sufficient to satisfy the respective deficiencies therein and to

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enable the Trustee to make the necessary payments of interest on the Series 2003 A, B, and C Obligations on September 1, 2009.

On March 9, 2010, the Authority issued a notice of material event with respect to the Authority's Series A, B, and C Bonds of 2003. The Series of 2003 Debt Service Accounts did not have sufficient funds to pay the scheduled interest payments in the amount of \$647,262, \$538,073, and \$607,120 due on the Series A, B, and C of 2003 Bonds, respectively, on March 1, 2010. Pursuant to the terms of the Series 2003 A, B, and C Indenture and the City Bond Guaranty, the Trustee notified the Authority and the City of such deficiencies in the Series of 2003 Debt Service Accounts. The Series 2003 A, B, and C Indenture and the City Bond Guaranty provide that if there are insufficient revenues available from the operation of the Authority's Resource Recovery Facility to pay debt service on the Series 2003 A, B, and C Obligations, then the Trustee is to draw upon the City Bond Guaranty for the monies for debt service. The Trustee so notified the City of the respective deficiencies in the Series of 2003 Debt Service Accounts for the March 1, 2010 debt service payment. However, the City notified the Trustee on February 23, 2010 that the City was not able to transfer funds for the debt service payment due on the Series 2003 A, B, and C Obligations on March 1, 2010. Upon the failure of the City to advance monies as required under the City Bond Guaranty, the Trustee then transferred funds from the 2003 Debt Service Reserve Account of the Debt Service Reserve Fund to the Series of 2003 Debt Service Accounts in amounts sufficient to satisfy the respective deficiencies therein and to enable the Trustee to make the necessary payments of interest on the Series 2003 A, B, and C Obligations on March 1, 2010.

On September 2, 2010, the Authority issued a notice of material event with respect to the Authority's Series A, B, and C Bonds of 2003. The Series of 2003 Debt Service Accounts did not have sufficient funds to pay the scheduled interest payments in the amount of \$647,262, \$378,898, and \$607,120 due on the Series A, B, and C of 2003 Bonds, respectively, on September 1, 2010. Pursuant to the terms of the Series 2003 A, B, and C Indenture and the City Bond Guaranty, the Trustee notified the Authority and the City of such deficiencies in the Series of 2003 Debt Service Accounts. The Series 2003 A, B, and C Indenture and the City Bond Guaranty provide that if there are insufficient revenues available from the operation of the Authority's Resource Recovery Facility to pay debt service on the Series 2003 A, B, and C Obligations, then the Trustee is to draw upon the City Bond Guaranty for the monies for debt service. The Trustee so notified the City of the respective deficiencies in the Series of 2003 Debt Service Accounts for the September 1, 2010 debt service payment. However, the City notified the Trustee that the City was not able to transfer funds for the debt service payment due on the Series 2003 A, B, and C Obligations on September 1, 2010. Upon the failure of the City to advance monies as required under the City Bond Guaranty, the Trustee then transferred funds from the 2003 Debt Service Reserve Account of the Debt Service Reserve Fund to the Series of 2003 Debt Service Accounts in amounts sufficient to satisfy the respective deficiencies therein and to enable the Trustee to

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make the necessary payments of interest on the Series 2003 A, B, and C Obligations on September 1, 2010.

On March 1, 2011, the Authority issued a notice of material event with respect to the Authority's Series A, B, and C Bonds of 2003. The Series of 2003 Debt Service Accounts did not have sufficient funds to pay the scheduled interest payments in the amount of \$647,262, \$147,612, and \$607,120 due on the Series A, B, and C of 2003 Bonds, respectively, on March 1, 2011. Pursuant to the terms of the Series 2003 A, B, and C Indenture and the City Bond Guaranty, the Trustee notified the Authority and the City of such deficiencies in the Series of 2003 Debt Service Accounts. The Series 2003 A, B, and C Indenture and the City Bond Guaranty provide that if there are insufficient revenues available from the operation of the Authority's Resource Recovery Facility to pay debt service on the Series 2003 A, B, and C Obligations, then the Trustee is to draw upon the City Bond Guaranty for the monies for debt service. The Trustee so notified the City of the respective deficiencies in the Series of 2003 Debt Service Accounts for the March 1, 2011 debt service payment. However, the City notified the Trustee that the City was not able to transfer funds for the debt service payment due on the Series 2003 A, B, and C Obligations on March 1, 2011. Upon the failure of the City to advance monies as required under the City Bond Guaranty, the Trustee then transferred funds from the 2003 Debt Service Reserve Account of the Debt Service Reserve Fund to the Series of 2003 Debt Service Accounts in amounts sufficient to satisfy the respective deficiencies therein and to enable the Trustee to make the necessary payments of interest on the Series 2003 A, B, and C Obligations on March 1, 2011.

On September 1, 2011, the Authority issued a notice of material event with respect to the Authority's Series A, B, and C Bonds of 2003. The Series of 2003 Debt Service Accounts did not have sufficient funds to pay the scheduled interest payments in the amount of \$647,262, \$143,034, and \$607,125 due on the Series A, B, and C of 2003 Bonds, respectively, on September 1, 2011. Pursuant to the terms of the Series 2003 A, B, and C Indenture and the City Bond Guaranty, the Trustee notified the Authority and the City of such deficiencies in the Series of 2003 Debt Service Accounts. The Series 2003 A, B, and C Indenture and the City Bond Guaranty provide that if there are insufficient revenues available from the operation of the Authority's Resource Recovery Facility to pay debt service on the Series 2003 A, B, and C Obligations, then the Trustee is to draw upon the City Bond Guaranty for the monies for debt service. The Trustee so notified the City of the respective deficiencies in the Series of 2003 Debt Service Accounts for the September 1, 2011 debt service payment. However, the City notified the Trustee that the City was not able to transfer funds for the debt service payment due on the Series 2003 A, B, and C Obligations on September 1, 2011. Upon the failure of the City to advance monies as required under the City Bond Guaranty, the Trustee then transferred \$580,868 consisting of all remaining funds on deposit in the 2003 Debt Service Reserve Account of the Debt Service Reserve Fund to the Series of 2003 Debt Service Accounts. In accordance with the Series 2003 A, B, and C Indenture, the Trustee then notified the Bond Insurer of the deficiency of funds on deposit in

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the Series of 2003 Debt Service Accounts required to make the September 1, 2011 payment and requested that such shortfall be paid upon under the bond insurance policy. The Bond Insurer paid the amount \$816,551 to the Trustee under the bond insurance policy, which amount, together with the funds transferred from the 2003 Debt Service Reserve Account of the Debt Service Reserve Fund, was sufficient to pay the scheduled debt service payment on September 1, 2011.

On June 29, July 16 and July 22, 2009, the Authority issued notices of material events with respect to the Authority's Series D-1, D-2, E, and F Bonds of 2003. The Series of 2003 D-1, D-2, E, and F Retrofit Debt Service Accounts did not have sufficient funds to pay the scheduled interest payments in the amount of \$1,062,450, \$1,625,000, \$353,030, and \$344,895 due on the Series D-1, D-2, E, and F of 2003 Bonds, respectively, on June 1, 2009. The amount of \$200,982, \$34, \$3, and \$72,636 was on deposit with the Trustee with respect to the Series D-1, D-2, E, and F Bonds of 2003, respectively, resulting in a deficiency of \$861,468, \$1,624,966, \$353,027, and \$272,259, respectively. The trust indenture and the City Bond Guaranty Agreement provide that if there are insufficient revenues available from the operation of the Authority's Resource Recovery Facility to pay debt service on the Series D-1, D-2, E, and F Bonds, then the Trustee is to draw upon the City Bond Guaranty as such term is defined in the City Bond Guaranty Agreement for the monies for debt service. Pursuant to terms of the trust indenture and the City Bond Guaranty, the Trustee notified the Authority and the City of such deficiency in the Series of 2003 D-1, D-2, E, and F Retrofit Debt Service Accounts. However, the City notified the Trustee that the City was not able to transfer funds for the debt service payment due on the Series D-1, D-2, E, and F Bonds on June 1, 2009. Upon the failure of the City to advance monies as required under the City Bond Guaranty Agreement, the Trustee then withdrew \$861,468, \$1,624,966, \$353,027, and \$272,259, respectively, from the 2003D, E and F Bonds Subaccount of the Retrofit Debt Service Reserve Account of the Debt Service Reserve Fund in May 2009 in accordance with the trust indenture and transferred such amount to the Retrofit Debt Service Account to address the deficiency in such account for the payment of interest on the Series D-1, D-2, E, and F Bonds on June 1, 2009.

On March 8 and March 9, 2010, the Authority issued notices of material events with respect to the Authority's Series D-1, D-2, E and F Bonds of 2003. The Series of 2003 D-1, D-2, E, and F Retrofit Debt Service Accounts did not have sufficient funds to pay the scheduled debt service payments in the amount of \$1,062,450, \$1,625,000, \$1,743,030, and \$1,684,895 due on the Series D-1, D-2, E, and F of 2003 Bonds, respectively, on December 1, 2009. There were no funds on deposit in the 2003 Retrofit Debt Services Accounts, resulting in a deficiency of \$1,062,450, \$1,625,000, \$1,743,030, and \$1,684,895, respectively. The trust indenture and the City Bond Guaranty Agreement provide that if there are insufficient revenues available from the operation of the Authority's Resource Recovery Facility to pay debt service on the Series D-1, D-2, E, and F Bonds, then the Trustee is to draw upon the City Bond Guaranty as such term is defined in the City Bond Guaranty Agreement for the



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monies for debt service. Pursuant to terms of the trust indenture and the City Bond Guaranty, the Trustee notified the Authority and the City of such deficiency in the Series of 2003 D-1, D-2, E, and F Retrofit Debt Service Accounts. However, the City notified the Trustee that the City could only able to transfer \$127,613, \$195,181, \$209,358, and \$202,376, respectively, for the Series D-1, D-2, E, and F Bonds of 2003, which amount represented a portion of the funds required for the debt service payment due on the Series D-1, D-2, E, and F Bonds on December 1, 2009. Upon the failure of the City to advance sufficient monies as required under the City Bond Guaranty Agreement, the Trustee then withdrew \$2,364,656, \$746,468, and \$1,482,519, respectively, from the 2003D, E and F Bonds Subaccount of the Retrofit Debt Service Reserve Account of the Debt Service Reserve Fund in order to satisfy the remaining deficiency therein and to enable the Trustee to make the necessary debt service payment on December 1, 2009. However, after transferring funds from the 2003 E Bonds Subaccount of the Retrofit Debt Service Reserve Account, the 2003E Bonds Subaccount of the Retrofit Debt Service Account was still deficient in the amount of \$787,204. Under the terms of the Indenture and the County Guaranty Agreement, dated as of December 1, 2003 (County Guaranty Agreement), among the County of Dauphin (County), the Authority and the Trustee, the County, as guarantor, was required to fund any deficiency in the 2003E Bonds Subaccount of the Retrofit Debt Service Account after deposits therein from the City under the City Bond Guaranty Agreement and from the 2003E Bonds Subaccount of the Retrofit Debt Service Reserve Account. Pursuant to the terms of the Indenture and the County Bond Guaranty Agreement, the Trustee notified the Authority and the County of such deficiency in the 2003 E Bonds Subaccount of the Retrofit Debt Service Account. The County, as guarantor, in accordance with the County Guaranty Agreement, transferred funds in the amount of \$787,204 to the Trustee for deposit into the 2003E Bonds Subaccount of the Retrofit Debt Service Account in order to satisfy the remaining deficiency therein and to enable the Trustee to make the necessary debt service payment the Series E Bonds on December 1, 2009. In addition, the Series F Bonds Subaccount of the Retrofit Debt Service Reserve Account was deficient in the amount of \$630,474, which required the Authority to draw on its debt service reserve fund surety policy. Such amount is presented as due to bond insurer on the face of the financial statement.

On June 1, 2010, the Authority issued notices of material events with respect to the Authority's Series D-1, D-2, E, and F Bonds of 2003. The Series of 2003 D-1, D-2, E, and F Retrofit Debt Service Accounts did not have sufficient funds to pay the scheduled debt service payments in the amount of \$1,062,450, \$1,625,000, \$322,103, and \$314,745 due on the Series D-1, D-2, E, and F of 2003 Bonds, respectively, on June 1, 2010. The amount of \$2, \$3, \$0, and \$2 was on deposit with the Trustee with respect to the Series D-1, D-2, E, and F Bonds of 2003, respectively, resulting in a deficiency of \$1,062,448, \$1,624,997, \$322,103, and \$314,743, respectively. The trust indenture and the City Bond Guaranty Agreement provide that if there are insufficient revenues available from the operation of the Authority's Resource Recovery Facility to pay debt service on the Series D-1, D-2, E, and F Bonds, then the Trustee is to draw upon the City Bond Guaranty as such term is defined in the City Bond

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Guaranty Agreement for the monies for debt service. Pursuant to terms of the trust indenture and the City Bond Guaranty, the Trustee notified the Authority and the City of such deficiency in the Series of 2003 D-1, D-2, E, and F Retrofit Debt Service Accounts. However, the City notified the Trustee that the City was not able to provide any funds under the City Bond Guaranty in order to make the debt service payment due on the Series D-1, D-2, E, and F Bonds on June 1, 2010. Upon the failure of the City to advance sufficient monies as required under the City Bond Guaranty Agreement, the Trustee then withdrew \$2,687,445, \$322,103, and \$314,743, respectively, from the 2003D, E and F Bonds Subaccount of the Retrofit Debt Service Reserve Account of the Debt Service Reserve Fund in order to satisfy the remaining deficiency therein and to enable the Trustee to make the necessary debt service payment on June 1, 2010. The funds on deposit in the 2003E Bonds Subaccount of the Retrofit Debt Service Reserve Account were derived from monthly deposits required to be made by the County under the terms of the County Guaranty Agreement.

On December 10, 2010, the Authority issued notices of material events with respect to the Authority's Series D-1, D-2, E, and F Bonds of 2003. The Series of 2003 D-1, D-2, E, and F Retrofit Debt Service Accounts did not have sufficient funds to pay the scheduled debt service payments in the amount of \$1,062,450, \$1,625,000, \$1,777,103, and \$1,714,745 due on the Series D-1, D-2, E, and F of 2003 Bonds, respectively, on December 1, 2010. The amount of \$161,436, \$246,913, \$270,025, and \$260,550 was on deposit with the Trustee with respect to the Series D-1, D-2, E, and F Bonds of 2003, respectively, resulting in a deficiency of \$901,014, \$1,378,087, \$1,507,078, and \$1,454,195, respectively. The trust indenture and the City Bond Guaranty Agreement provide that if there are insufficient revenues available from the operation of the Authority's Resource Recovery Facility to pay debt service on the Series D-1, D-2, E, and F Bonds, then the Trustee is to draw upon the City Bond Guaranty as such term is defined in the City Bond Guaranty Agreement for the monies for debt service. Pursuant to terms of the trust indenture and the City Bond Guaranty, the Trustee notified the Authority and the City of such deficiency in the Series of 2003 D-1, D-2, E, and F Retrofit Debt Service Accounts. However, the City notified the Trustee that the City was not able to provide any funds under the City Bond Guaranty in order to make the debt service payment due on the Series D-1, D-2, E, and F Bonds on December 1, 2010. Upon the failure of the City to advance sufficient monies as required under the City Bond Guaranty Agreement, the Trustee then withdrew \$2,279,101, \$1,507,078, and \$54,784, respectively, from the 2003D, E, and F Bonds Subaccount of the Retrofit Debt Service Reserve Account of the Debt Service Reserve Fund in order to satisfy the remaining deficiency therein and to enable the Trustee to make the necessary debt service payment on December 1, 2010. However, withdraw from the 2003 F Bonds Subaccount of the Retrofit Debt Service Reserve account was not sufficient to make the December 1, 2010 payment, in the amount of \$1,399,411. The Trustee then notified the Bond Insurer of the deficiency of funds on deposit in the 2003F Bonds Subaccount of the Retrofit Debt Service Account required to make the December 1, 2010 payment and requested that such shortfall be paid upon under the bond insurance

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policy. The Bond Insurer paid the amount \$1,399,411 to the Trustee under the bond insurance policy, which amount, together with funds on deposit in the 2003F Bonds Subaccount of the Retrofit Debt Service Account, was sufficient to pay the scheduled debt service payment on December 1, 2010. The funds on deposit in the 2003D and E Bonds Subaccount of the Retrofit Debt Service Reserve Account were derived from monthly deposits required to be made by the County under the terms of the County Guaranty Agreement.

On June 2, 2011, the Authority issued notices of material events with respect to the Authority's Series D-1, D-2, E, and F Bonds of 2003. The Series of 2003 D-1, D-2, E, and F Retrofit Debt Service Accounts did not have sufficient funds to pay the scheduled debt service payments in the amount of \$826,350, \$1,625,000, \$289,729, and \$283,245 due on the Series D-1, D-2, E, and F of 2003 Bonds, respectively, on June 1, 2011. The amount of \$339,151, \$502,022, \$89,508, and \$87,505 was on deposit with the Trustee with respect to the Series D-1, D-2, E, and F Bonds of 2003, respectively, resulting in a deficiency of \$487,199, \$1,122,978, \$200,221, and \$195,740, respectively. The trust indenture and the City Bond Guaranty Agreement provide that if there are insufficient revenues available from the operation of the Authority's Resource Recovery Facility to pay debt service on the Series D-1, D-2, E, and F Bonds, then the Trustee is to draw upon the City Bond Guaranty as such term is defined in the City Bond Guaranty Agreement for the monies for debt service. Pursuant to terms of the trust indenture and the City Bond Guaranty, the Trustee notified the Authority and the City of such deficiency in the Series of 2003 D-1, D-2, E, and F Retrofit Debt Service Accounts. However, the City notified the Trustee that the City was not able to provide any funds under the City Bond Guaranty in order to make the debt service payment due on the Series D-1, D-2, E, and F Bonds on June 1, 2011. Upon the failure of the City to advance sufficient monies as required under the City Bond Guaranty Agreement, the Trustee then withdrew \$1,610,177 and \$200,221, respectively, from the 2003D and E Bonds Subaccount of the Retrofit Debt Service Reserve Account of the Debt Service Reserve Fund in order to satisfy the remaining deficiency therein and to enable the Trustee to make the necessary debt service payment on June 1, 2011. However, the Series F Bonds Subaccount of the Retrofit Debt Service Reserve Account did not have any funds on deposit therein. In accordance with the Indenture, the Trustee then notified the Bond Insurer of the deficiency of funds on deposit in the 2003F Bonds Subaccount of the Retrofit Debt Service Account required to make the June 1, 2011 payment and requested that such shortfall be paid upon under the bond insurance policy. The Bond Insurer paid the amount \$195,740 to the Trustee under the bond insurance policy, which amount, together with funds on deposit in the 2003F Bonds Subaccount of the Retrofit Debt Service Account, was sufficient to pay the scheduled debt service payment on June 1, 2011. The funds on deposit in the 2003D and E Bonds Subaccount of the Retrofit Debt Service Reserve Account were derived from monthly deposits required to be made by the County under the terms of the County Guaranty Agreement.

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On December 2, 2011, the Authority issued notices of material events with respect to the Authority's Series D-1, D-2, E, and F Bonds of 2003. The Series of 2003 D-1, D-2, E, and F Retrofit Debt Service Accounts did not have sufficient funds to pay the scheduled debt service payments in the amount of \$826,350, \$1,625,000, \$1,809,729, and \$1,748,245 due on the Series D-1, D-2, E, and F of 2003 Bonds, respectively, on December 1, 2011. The amount of \$523,217, \$1,028,596, \$1,145,495, and \$1,106,575 was on deposit with the Trustee with respect to the Series D-1, D-2, E, and F Bonds of 2003, respectively, resulting in a deficiency of \$303,133, \$569,404, \$664,234, and \$641,670, respectively. The trust indenture and the City Bond Guaranty Agreement provide that if there are insufficient revenues available from the operation of the Authority's Resource Recovery Facility to pay debt service on the Series D-1, D-2, E, and F Bonds, then the Trustee is to draw upon the City Bond Guaranty as such term is defined in the City Bond Guaranty Agreement for the monies for debt service. Pursuant to terms of the trust indenture and the City Bond Guaranty, the Trustee notified the Authority and the City of such deficiency in the Series of 2003 D-1, D-2, E, and F Retrofit Debt Service Accounts. However, the City notified the Trustee that the City was not able to provide any funds under the City Bond Guaranty in order to make the debt service payment due on the Series D-1, D-2, E, and F Bonds on December 1, 2011. Upon the failure of the City to advance sufficient monies as required under the City Bond Guaranty Agreement, the Trustee then withdrew \$899,537 and \$664,234, respectively, from the 2003D and E Bonds Subaccount of the Retrofit Debt Service Reserve Account of the Debt Service Reserve Fund in order to satisfy the remaining deficiency therein and to enable the Trustee to make the necessary debt service payment on December 1, 2011. However, the Series F Bonds Subaccount of the Retrofit Debt Service Reserve Account did not have any funds on deposit therein. In accordance with the Indenture, the Trustee then notified the Bond Insurer of the deficiency of funds on deposit in the 2003F Bonds Subaccount of the Retrofit Debt Service Account required to make the December 1, 2011 payment and requested that such shortfall be paid upon under the bond insurance policy. The Bond Insurer paid the amount \$664,670 to the Trustee under the bond insurance policy, which amount, together with funds on deposit in the 2003F Bonds Subaccount of the Retrofit Debt Service Account, was sufficient to pay the scheduled debt service payment on December 1, 2011. The funds on deposit in the 2003D and E Bonds Subaccount of the Retrofit Debt Service Reserve Account were derived from monthly deposits required to be made by the County under the terms of the County Guaranty Agreement.

On August 23, 2010, the Authority issued a notice of material event with respect to the Authority's Series C and D Notes of 2007. The Trustee was required to notify the City and the County by August 1, 2010 of the amounts on deposit in the Series C Debt Service Account and the Series D Debt Service Account and the amount of the Stated Value at Maturity of the Series C Notes and the Series D Notes. In the event that the respective Stated Value at Maturity of the Series C Notes or the Series D Notes exceeded the respective amounts on deposit in the Series C Debt Service Account or the Series D Debt Service

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## NOTES TO FINANCIAL STATEMENTS

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Account, the Trustee was required to instruct the City to transfer to the Trustee on or before August 15, 2010 amounts sufficient to cure such deficiency or deficiencies.

On July 30, 2010, the Trustee provided notice to the City and the County indicating that there was \$0 on deposit in the Series C Debt Service Account and the Series D Debt Service Account and further instructing the City to transfer \$23,920,000 to the Series C Debt Service Account and \$10,764,999 to the Series D Debt Service Account by August 15, 2010 in order to cure the deficiency. Upon receipt of such notice by the Trustee, the City agreed to transfer the required amounts to the Series C Debt Service Account or the Series D Debt Service Account by August 15, 2010.

On August 13, 2010, the City notified the Trustee that its current financial condition precluded the City from making the required transfers under the Guaranty Agreement. Upon such failure by the City under the Guaranty Agreement, the Trustee was required under the Indenture to notify the County by August 20, 2010 of the amounts on deposit in the Series C Debt Service Account, the Series D Debt Service Account, the Series C City Guaranty Subaccount and the Series D City Guaranty Subaccount. To the extent that the Stated Value at Maturity of the Series C Notes or the Series D Notes exceeds the aggregate amounts on deposit in the corresponding aforementioned Accounts and Subaccounts, the Trustee is required to instruct the County to transfer to the Trustee on or before December 1, 2010 amounts to cure such deficiency or deficiencies. In accordance with the provisions of the County Guaranty Agreement, dated as of December 15, 2007 (County Guaranty Agreement), among the County, the Authority and the Trustee, the County has agreed to transfer the required amounts to the Series C Debt Service Account or the Series D Debt Service Account by December 1, 2010.

On August 20, 2010, the Trustee provided notice to the County indicating that there was a deficiency in the Series C Debt Service Account and the Series C City Guaranty Subaccount in the amount of \$23,920,000 and a deficiency in the Series D Debt Service Account and the Series D City Guaranty Subaccount in the amount of \$10,765,000 and requesting a transfer of funds sufficient to cure such deficiencies by December 1, 2010. Upon receipt of such notice by the Trustee, the County pursuant to the County Guaranty Agreement agreed to transfer the required amounts to the Series C Debt Service Account or the Series D Debt Service Account by December 1, 2010.

On December 17, 2010, the Authority issued a notice of material event with respect to the Authority's Series C and D Notes of 2007. The C and D of 2007 D Debt Service Accounts did not have sufficient funds on deposit on November 30, 2010 to pay the Stated Value at Maturity of the Series C Notes or the Series D Notes on December 15, 2010. In accordance with the provisions of the Indenture and the County Guaranty Agreement, dated as of December 15, 2007 (County Guaranty Agreement), among the County, the Authority and the Trustee, the County transferred the required amounts to the Series C Debt Service Account

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# THE HARRISBURG AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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and the Series D Debt Service Account on or about December 1, 2010. The Trustee applied such amounts deposited by the County to the Series C Debt Service Account and the Series D Debt Service Account to pay the Stated Value at Maturity of the Series C Notes and the Series D Notes on December 15, 2010. The Series C Notes and the Series D Notes are no longer outstanding.

On October 28, 2009, the City received notice that Moody's downgraded its rating on its outstanding obligations to Ba2 from Baa2. In addition, the new rating remains on watchlist for possible further downgrades. In notice of material event, filed by the City on March 29, 2011, the City stated that it has not provided an annual report for the fiscal year ended December 31, 2009.

Additionally, the County made payments in the amount of \$284,195 and \$491,458 on June 1, 2009 under the County Guaranty with respect to the Series D-1 and D-2 Cap agreement and the Series D-1 and D-2 Swap agreement, respectively. The County also made payments in the amount of \$250,430 and \$469,833 on November 27, 2009 under the County Guaranty with respect to the Series D-1 and D-2 Cap agreement and the Series D-1 and D-2 Swap agreement, respectively. The City also made a payment in the amount of \$98,322 on December 1, 2009 under the City Guaranty with respect to the Series D-1 and D-2 Swap agreement. On June 1, 2010, December 1, 2010, June 1, 2011, the County made payments in the amount of \$804,152, \$675,762, and \$541,090, respectively, under the Swap/Cap agreements.

The City made payments in the amount of \$637,500 during July 2009, October 2009, and January 2010 under the guaranty with respect to construction loan from Covanta. There have been no subsequent payments to Covanta with respect to the construction loan.

In June 2010, the Authority entered into a Consent Order and Agreement (COA) with the Pennsylvania Department of Environmental Protection (DEP) relative to the Resource Recovery Facility for violations of air quality-related emissions limits as of January 2007. In lieu of paying the total fine for the violations, the COA established the following:

- Civil penalty of \$125,000 due at execution of COA.
- Additional civil penalty of \$100,000 due no later than December 31, 2011, December 31, 2012, and December 31, 2013.

In lieu of paying civil penalties for the period of 2011 – 2013, the Authority may perform certain projects for the benefit of the residents of the City and/or the Borough of Steelton. In order for the funds expended on the projects to qualify as Project Credits under the COA, the Projects must be certain projects and meet certain conditions:

# THE HARRISBURG AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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- Asthma Education Program for Community School Children – implement the American Lung Association’s Open Airways for Schools Program. The Authority will provide funds to the Project Administrator (Hamilton Health Center).
- South Allison Hill Weed and Seed Revitalization Plan – bulk trash cleanup, cameras to monitor illegal dumping, and vacant lot cleanup. The Authority will participate by providing funds to Project Administrator (YMCA Weed and Seed).

For payments to qualify for the Project Credits, the Authority must:

- Receive written approval from the DEP for the draft contract between the Authority and the Project Administrators.
- Execute the DEP approved contract with the Project Administrator.
- Provide DEP with copy of executed contract with first quarterly report.
- Provide DEP with quarterly reports (within 30 days of the end of the quarter).

The \$100,000 penalty for period of 2011 – 2013 will not be due for each year if the Authority demonstrates at least \$50,000 of Project Credits pursuant to the Final Completion Reports submitted during each calendar year. If the Authority demonstrates any Project Credits pursuant to the Final Completion Reports submitted during the 2010 calendar year, the 2010 Project Credits shall be applied as Project Credits to the 2011 calendar year. If the Authority demonstrates more than \$50,000 of Project Credits pursuant to Final Completion Reports submitted during 2011 and 2012 calendar years, the Project Credits exceeding \$50,000 in any given year may be applied as Project Credits in the next calendar year.

The County is seeking \$6,743,197 as of October 26, 2010 for reimbursement of payments it made as guarantor of Swap Payments in June and December of 2009, June 2010, and payments under Retrofit Indentures, Series D and E of 2003. The County also demands interest and costs. On February 15, 2011, the County is seeking \$675,762 for reimbursement of payments made as guarantor of Swap Payments made in December 2010. The pleadings are closed and the case has been inactive. No trial date has been set. The Authority has defended by asserting that the County has frustrated the Authority’s ability to charge rates that would have allowed it to meet its debt service. The Authority has also raised that the County has not been diligent in enforcing flow control ordinance, this costing the Authority tipping fees, that otherwise, would have been recovered. The Authority will defend itself vigorously. The Authority believes that it has a reasonable and valid basis for its position. The loss may be handled through payment via a plan under Act 47 (Municipalities Financial Recovery Act), as amended, or through a City bankruptcy in accordance with the current law.

The Trustees of bondholders and bond insurer have made a claim against the Authority to recover amounts the Authority has not paid by under its various debt service obligations. Plaintiffs further seek all costs and attorneys fees associated with the Authority default and

# THE HARRISBURG AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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that these costs and fees be a "first draw" on Resource Recovery Facility revenues. Part of Plaintiffs' case is the appointment of a receiver over the Resource Recovery Facility. Plaintiffs have requested a hearing which, as of this writing, has not been scheduled. Plaintiffs may seek payment of its costs and fees if a receiver is appointed. The portion of the claim requesting monetary relief has been inactive and no trial date has been set. The Authority has responded to the claim for monetary relief in two ways. First, for the claims of the bond trustees, the Authority has defended that any amounts paid by the County cannot be recovered, and that the only rights to reimbursement are the County's under its Reimbursement Agreement. There does not appear to be a dispute that the bond insurer paid under its bond insurance policy, thus there is a likelihood that the insurer's claim for reimbursement will be successful. The Authority believes there is a reasonable and valid basis for its position as to the Trustee/Plaintiffs' claim for payment. The Authority believes Plaintiffs' claims for costs and fees to be excessive and may challenge certain portions of the claim for costs. The amount due may be handled through payment via a plan under Act 47, as amended, or through a City bankruptcy in accordance with the current law.

Unless resolved through a plan under Act 47 or in the bankruptcy referenced above, it is likely that for each payment the County or the bond insurer make as guarantor and insurer, respectively, they will make a claim against the Authority for the amounts paid as well as costs and attorneys. As of December 20, 2011, the County and bond insurer have made payments to cover the Authority's debt service of \$46,007,537 and \$7,339,224, respectively.

The Authority entered into an Administrative Services and Interim Operation and Maintenance Agreement (Interim Agreement) with Covanta Energy, Inc. (Covanta) for operation and management of the Resource Recovery Facility effective January 2, 2007 through March 31, 2007. During the interim agreement period, Covanta provided all day-to-day administrative services, provided a Construction Plan and coordinated all construction, start-up performance testing, operation and maintenance services for the Facility. The Authority deposited \$100,000 with Covanta, which was used to pay for the first arising reimbursable expenses under the Agreement. On the 15<sup>th</sup> and 30<sup>th</sup> day of each month, the Authority paid Covanta 1/24<sup>th</sup> of the annual amount set forth in the estimated operating budget. Each month, Covanta reconciled the actual reimbursable expenses to the payments made by the Authority. For all reimbursable expenses incurred during the month in excess of such payments, Covanta submitted an invoice for such excess by the 10<sup>th</sup> day of the following month, which was to be paid by the Authority within 30 days. Reimbursable expenses are defined in the agreement. The Authority also paid an administrative service charge to Covanta in the amount of 11% of reimbursable expenses. The Interim Agreement was extended, on a month-to-month basis, through January 31, 2008.

The Authority then entered into a Management and Professional Services Agreement with Covanta to provide construction and operations management services for a period of ten years and the Retrofit Completion work. The terms and conditions of this agreement are



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substantially the same as the Interim Agreement, except that the management fee is \$875,000 per month, escalated annually each calendar year.

On December 31, 2003, the Authority entered into the Non-Exclusive Technology Sub-Licensing Agreement and Technology Purchase Agreement with the original contractor of the Resource Recovery Retrofit. The original contractor granted the Authority a license to utilize the Combustion Technology at the Facility. The Sub-License Agreement is to continue in effect until the date on which the Combustion Technology is no longer used at the Facility.

To raise the funds necessary to complete the project, the original contractor sold its Technology License to CIT - Newcourt Capital for \$25 million. In turn, the Authority and original contractor entered into a First Amended and Restated Nonexclusive Technology Sublicensing Agreement and Technology Purchase Agreement (Amended Purchase Agreement) granting continued right to the Authority to make full use of the Combustion Technology for all intended purposes under the Equipment Agreement, and for no other purpose; provided, that the Authority may expand or increase the number of units at the Facility without the consent of the Licensor and without payment of any additional fees. This Amended Purchase Agreement has since been assigned to CIT.

Under the sublicense, the Authority will pay to CIT the following fees:

Base Fee - For each calendar quarter ending prior to January 1, 2026, the Authority will pay to Licensor/Seller, on or prior to the first business day of the immediately following calendar quarter (base fee) an amount equal to:

- For calendar quarters ending March 31, 2006 and June 30, 2006, \$500,000;
- For each calendar quarter thereafter prior to the calendar quarter during which the \$25 million is repaid, \$750,000; and
- For each calendar quarter following the calendar quarter during which the \$25 million has been repaid occurs and prior to the calendar quarter in which the Purchase Date occurs, \$.50 per ton of waste processed through each Combustion Unit during the applicable calendar quarter.

Supplemental Fee - For each calendar year ending on or after December 31, 2006 and prior to the repayment of the \$25 million, the Authority will pay to CIT, an amount equal to 95% of the excess revenues (defined as funds available after the payment of facility expenses defined as actual expenses incurred by the Authority in the operation, maintenance and ownership of the Facility: such expenses to include all operating and debt service expenses and mandated governmental fees and costs, and payments required to be made from the revenue fund into the following trust funds: the debt service fund, the debt service reserve fund, the operating reserve fund, the renewal and replacement

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## NOTES TO FINANCIAL STATEMENTS

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fund and any other specified funds into which mandatory deposits or transfers are required under the terms of the existing authority indenture documents, but excluding the surplus fund and the redemption fund and disregarding amounts paid into and disbursed out of the purchase and remarketing fund).

During the year ended December 31, 2006, the Authority paid the base fee of \$2.5 million to CIT under the Amended Purchase Agreement. There were no supplemental fees due for the year ended December 31, 2006. There were no payments made under this agreement in 2007, 2008, or 2009.

CIT is asserting that, pursuant to one of the many agreements signed on or about January 11, 2006, the Authority is required to repay this obligation because of the ensuing bankruptcy of Barlow, the original designer and contractor of the Resource Recovery Facility's retrofit project. CIT further argues that the Authority's obligation is an "operating expense" and that it should be given priority in payment ahead of THA's debt service obligations. The case is presently in federal court and scheduled for trial in January 2012. The Authority has defended against the claim by asserting that the agreements upon which CIT was basing its claims are unenforceable and ultra vires acts, and, among other arguments, that there was a lack of consideration for the agreements. The Authority is contesting CIT's arguments vigorously and is seeking a declaration that the agreements upon which CIT relies are void and unenforceable.

The Authority believes it has a reasonable and valid basis upon which to defend against the claims of CIT, as well as reasonable and valid basis, in the event of an adverse verdict in favor of CIT, to pursue a claim for reimbursement or indemnification from the professionals who advised it on the transactions. As such, no liability for this case is reported in the Authority's December 31, 2009 financial statements.

The Authority had contractual relations with several vendors who completed the Resource Recovery Facility. These vendors were to be paid through a draw down from a construction advance provided by Covanta. Covanta failed to advance funds to pay these vendors when the Authority failed to reimburse Covanta on the advance, and the City failed under its guaranty of the Authority reimbursement. The Authority has been unable to pay the vendors since it does not believe the vendors costs are properly termed "operating expenses" and thus cannot be paid prior to debt service. The Authority as stipulated to judgments of three vendors in the principal amount of \$1,021,985 plus interest and court costs. The Authority has no defense to the claims as the work was approved by Covanta, the Authority, and the Authority's consulting engineer on the job. All have, at some point, demanded payment. Instead of litigating these claims, it has been the Authority's policy to allow vendors to enter judgment against the Authority in the amount the Authority shows as being due and owing on its books. Only one vendor has sought payment through mandamus at this point. This vendor seeks an order that the Authority pay immediately. While not contesting the work or

# THE HARRISBURG AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

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the right of each vendor to be paid, the Authority believes the vendors should be paid by Covanta through draw downs from the Covanta construction advance and intends to litigate this defense vigorously. Furthermore, the Authority recognizes the rights of the bond trustees which hold security interests in the Resource Recovery Facility revenues and has resisted paying the vendors ahead of debt service obligations. The Authority has involved the trustees in discussions and litigation at this point. The Authority seeks to have the Court consider the equities and all interested parties and set forth a plan to get all vendors paid the amounts due. The Authority believes the law supports such an outcome. No trial date has been set on the mandamus action. The Authority has a reasonable and valid basis for the positions it has taken. The principal amount due is accrued on the Authority's December 31, 2009 financial statements and may be handled through payment via a plan under Act 47, as amended, or through a City bankruptcy in accordance with the current law.

There is one pending case in which a subcontractor of Barlow, unable to collect from Barlow for work performed at the Resource Recovery Facility, has sued the Authority, in the amount of \$529,550 plus interest, costs, etc. The Authority has no contractual privity with this subcontractor. The Authority does not believe it is liable under the law and is defending this case vigorously. The Authority believes it has a reasonable position on the cross-motions, which may result in dismissal of the case. As such, no liability for this case is reported in the Authority's December 31, 2009 financial statements.

The Authority is involved in litigation involving malfunction of the steam turbine at the Resource Recovery Facility. The claims stem from the Authority's purchase of a steam-turbine generator. Two incidents occurred involving a power outage which, after subsequent failures of the back-up lubrication system, resulted in severe damage to moving parts within the turbine generator and other property, including the rotor. Additionally, an inspection of the turbine blades conducted during the repairs revealed a defect in the eighth stage blade, which occurred during the manufacturing process of the steam turbine generator. The Authority asserted a claim against the manufacturer, which was filed in April 2009. In November 2009, the manufacturer filed an amended counter-claim versus the Authority for breach of contract. The manufacturer asserts that the Authority has not paid approximately \$450,000 in repair bills that were submitted to the Authority. The Authority's has reached an oral agreement that has not been reduced to writing. The Authority is not at liberty to disclose the terms of the settlement, although the amount the Authority will pay as part of the settlement will be paid out of amounts the Authority has been holding and received through an insurance settlement related to this case. This amount is not considered material to the financial statements and, as such, no liability for this case is reported in the Authority's December 31, 2009 financial statements.

When the Authority purchased the Resource Recovery Facility from the City in 1993, the Authority paid the City approximately \$30 million in consideration. The Agreement of Sale allows for a maximum purchase price of \$55 million, with the final purchase price to be

# THE HARRISBURG AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

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based on the financial capability of the Resource Recovery Facility. The balance of the purchase price is to be paid only after the Authority completes financing of the improvements to the Facility described above, in such amount as is set forth in a report of the Authority's consulting engineer certifying that facility revenues upon completion of such improvements are sufficient to pay all operating expenses, debt service, and any other facility funding requirements. There were no additional payments required during the year ended December 31, 2009.

### Water Fund

The Water Facility's 2009 and 2010 budgets were approved by the Board in June 2009 and November 2010, respectively. As required under the trust indenture, the budget is required to be approved 30 days prior to the end of the calendar year and provided to the bond insurer within 120 days of year-end. Additionally, the 2009 and 2010 consulting engineers' reports, which are due, per the trust indenture, 90 days prior to the end of the calendar year, were not been received by the Authority until May 2010 and October 2010, respectively. Finally, management has not instituted a system to calculate the rate covenant requirement.

Under the continuing disclosure undertaking, the Authority has covenanted to file its secondary market disclosures within 270 days of the end of their fiscal year. Additionally, the various trust indentures require the Authority to submit its audited financial statements to the trustee within 180 days. On December 13, 2010 and September 29, 2011, the Authority issued a notice of material event with respect to the issuance of the Authority's financial statements for the years ended December 31, 2009 and 2010, stating that neither were completed by the required dates.

Under the trust indentures, the Authority is required to maintain certain minimum balances in the Water Operating Reserve Fund. At December 31, 2009, the Authority's balance in the Water Operating Reserve Fund was \$107,350 and the reserve requirement was \$867,245. The trust indenture states that if the balance in the Water Operating Reserve Fund becomes deficient, the Authority is to restore the balance with twelve substantially equal installments. The Water operating reserve fund was replenished through nine transfers of \$83,333 plus accrued interest.

On January 18, 2011, the Authority issued a notice of material event with respect to the Moody's Investor Service (Moody's) downgrade to Ba1 from A1 of the Authority's 2008 Water Revenue Bonds. In addition, Moody's has removed the Authority's 2008 Water Revenue Bonds from watchlist and a negative outlook has been assigned. On November 15, 2011, Moody's downgraded to Ba3 with negative outlook from Ba1 the rating on the Authority's 2008 Water Revenue Bonds and then withdrew the rating. Accordingly, the Authority's 2008 Water Revenue Bonds are no longer rated by Moody's.

# THE HARRISBURG AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

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Under the 2008 Water Revenue Bond trust indenture, the Authority is required to maintain certain minimum balances in the 2008 Water Debt Service Reserve Fund. At December 31, 2009, the Authority's balance in the 2008 Water Debt Service Reserve Fund was \$6,807,446 and the required balance was \$6,942,000. The trust indenture states that if the balance in the Water operating reserve fund becomes deficient, the Authority is to restore the balance with twelve substantially equal installments. The Water Debt Service Reserve Fund was replenished through increases in the market value of investments.

Additionally, beginning in August 2009, the Authority was to transfer 1/12 of the next principal payment due and 1/6 of the next interest payment due, from the Water Revenue Fund to the 2002 Water Debt Service Fund, for the 2002 Water Revenue Bonds, Series D. While the payments for interest were transferred, the payments for principal were not.

### Other

The Authority is involved in several lawsuits in the normal course of business. It is the opinion of management that any liabilities resulting from these proceedings would not materially affect the financial position of the Authority at December 31, 2009.

The Authority has guaranteed a line-of-credit on behalf of the National Civil War Museum. The maximum amount available under the line-of-credit is \$500,000. As required by the agreement, the Authority has placed \$250,000 in a separate account and this amount is included on the balance sheet as restricted cash and cash equivalents.

The Authority has entered into various construction contracts related to the construction of the various facilities. The outstanding commitment under these contracts at December 31, 2009, excluding amounts in accounts payable, was approximately \$6 million.

## **12. SEWER PROJECTS**

On August 19, 2009, the Authority received the H2O Pennsylvania Act Grant in the sum of \$5,520,000 from the Commonwealth Financing Authority for construction and improvements to the waste water treatment plant located in Swatara Township. Under the grant agreement, the project must be completed prior to June 30, 2012. To receive payments under this grant, the Authority must submit requests for payment based on the estimate of expenditures. Total costs for the draw down of the grant were \$247,649 at December 31, 2009. All requests for reimbursements were submitted at December 31, 2009.

On December 23, 2009, the Authority entered into a loan agreement with the Pennsylvania Infrastructure Investment Authority (Penn Vest) in an amount not to exceed \$1,880,000 for

# THE HARRISBURG AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

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capital improvements of the wastewater treatment facility. The loan is guaranteed by the City. As of December 31, 2009, no amounts have been drawn down on the loan.

### 13. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Authority carries commercial insurance. The Authority also requires the City to carry commercial insurance as part of the management agreement for the Water System. During the last three years, insurance settlements did not exceed insurance coverage.

### 14. LIQUIDITY

The Authority's Resource Recovery Facility, as required by the Environmental Protection Agency, was temporarily closed so that the Authority could undertake a modernization program. A significant financing was completed in December 2003 to fund the costs of the project. Additionally, the Resource Recovery Fund has experienced significant operating losses, has an accumulated deficit of approximately \$138 million at December 31, 2009, and is in violation of certain covenants under the trust indentures. The Authority has issued multiple notices of material events with respect to certain bonds of the Resource Recovery Facility. Many of the above items were due to delays and incompleteness of the facility retrofit as originally anticipated.

In the fall of 2007, the Authority developed a recovery plan for the Resource Recovery Facility that requires completion of construction of the facilities to bring the three burners on line and up to operating efficiently. The Authority engaged Covanta to manage and operate the Facility and to provide professional services. Included in Covanta's Agreement with the Authority is a construction management agreement to oversee the completion of construction. The recovery plan also included increased disposal fees and tipping fees and infusion of capital for construction and working capital. The Authority's recovery plan was presented and approved by the City and County in November 2007.

The completion of the retrofit project and correction of design flaws caused by the original contractor were funded by a loan from Covanta to pay for such work. Payment of the debt service on the Covanta loan was to be from revenue generated from the facility when all three burners are operating (although the Covanta loan is subordinate in payment to the Authority's prior debt relating to the Resource Recovery Facility) and from the City's guaranty to pay debt service in the event of insufficient revenues being generated from the facility to pay principal of and interest on the Covanta loan. Repayment of the debt service on the Covanta loan began prior to completion of the construction project. The Authority's

# THE HARRISBURG AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

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revenues were insufficient to make payment on the loan and the City guarantee was called upon. The City made payments to Covanta until their financial situation precluded such payments in April 2010. As of December 2011, \$4,637,722 remains unpaid to Covanta. Additionally, the Authority owes approximately \$2,000,000 to vendors on the retrofit completion project due to Covanta failing to release advance funds once the Authority and City were unable to make reimbursement payments.

The Authority also obtained funding for a working capital loan to cover costs and debt service during the expected time period for completion of the retrofit project by the issuance of capital appreciation notes. Such notes for the working capital loan were issued in December of 2007 and matured on December of 2010. Revenues from the Resource Recovery Facility were not pledged as security for the working capital loan. The working capital loan was guaranteed by the City and the County on the assumption that the working capital loan would be refinanced into long term debt prior to or, at the latest, by December 2010. At the time of closing on the working capital loan, it was anticipated that the City and the County would guarantee any long term debt issued to take out the working capital loan. The Authority, City and County failed to reach agreement on the refinancing and as a result, the County alone refinanced the working capital loan.

Since 2008, the RRF has been able to cover operating expenses but unable to generate sufficient revenue to cover debt service. As such, the Authority has drawn on debt service reserves, called upon guarantors, and revenue enhancement insurance policies to avoid default. Fees associated with the guarantor and insurance agreements continue to accrue.

Due to delays in completing construction that resulted in a revenue shortfall together with the increased debt burden and limitations on revenue enhancement, the project has not met debt covenant coverage requirements. The covenant requirements are closely monitored and adhered to when possible.

The Authority continues to pursue revenue enhancing and expense reducing activities, but will continue to rely upon reserves, guarantors and insurance until a coordinated solution is accomplished. To this end, the Authority is participating in the City's Act 47 process that seeks to provide a plan to eliminate the financial burden of the RRF on the revenues, guarantors and insurance providers.

### 15. SUBSEQUENT EVENTS

Subsequent events with respect to material event notices and debt related items are included in the respective notes.

# **THE HARRISBURG AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2009**

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In March 2011, the Authority entered into a professional services agreement with respect to the Authority's sewer facility, for technical services, in an amount not to exceed \$2.871 million. The contract includes a provision whereby the Authority will give notice to proceed at each defined phase of the service.

In August 2011, the Authority entered into an agreement with Covanta to manage all aspects of the air heater project at the Resource Recovery Facility, at an estimated cost of \$1.2 million for both units.

In April 2011, the Authority applied for a PennVest loan, in the amount not to exceed \$5.7 million for the purpose of financing the Authority's water system improvements. As of the date of this report, this loan has not settled.



## **Supplementary Information**

**THE HARRISBURG AUTHORITY**  
**COMBINING BALANCE SHEET**  
**DECEMBER 31, 2009**

Assets	Water Segment	Sewer Segment	Resource Recovery Segment	Working Capital Fund	Total
Current assets:					
Cash and cash equivalents	\$ 2,774,381	\$ -	\$ 6,346,359	\$ 1,019,724	\$ 10,140,464
Grants receivable	-	247,649	-	-	247,649
Accounts receivable, net of allowance for uncollectible accounts of \$1,562,762, zero, \$123,195, and zero	2,925,536	-	2,549,249	16,175	5,490,960
Accrued interest receivable	-	1,284	-	-	1,284
Due from the City of Harrisburg	-	95,000	-	-	95,000
Due from (to) other funds	321,487	-	(421,487)	100,000	-
Current portion of direct financing lease	-	1,731,084	-	-	1,731,084
Current portion of advances to the City of Harrisburg	-	173,250	-	-	173,250
Total current assets	6,021,404	2,248,267	8,474,121	1,135,899	17,879,691
Restricted assets:					
Cash and cash equivalents - restricted under trust indentures and guarantee agreement	1,136,443	8,076	2,210,671	304,374	3,659,564
Investments - restricted under trust indentures	33,782,474	10,370,739	12,770,011	-	56,923,224
Litigation settlement receivable	-	-	88,000	-	88,000
Total restricted assets	34,918,917	10,378,815	15,068,682	304,374	60,670,788
Noncurrent assets:					
Direct financing leases, net of unearned income of zero, \$380,968, zero, and zero	-	1,604,826	-	-	1,604,826
Advances to the City of Harrisburg	-	1,624,782	-	-	1,624,782
Capital assets, not being depreciated	-	-	2,121,416	351,865	2,473,281
Capital assets, being depreciated, net of accumulated depreciation of \$36,989,805, zero, \$20,986,636, and zero	66,935,245	-	117,123,276	-	184,058,521
Deferred financing costs, net of accumulated amortization of \$2,731,254, \$770,953, \$6,069,841, and zero	4,863,453	34,378	8,660,423	-	13,558,254
Total noncurrent assets	71,798,698	3,263,986	127,905,115	351,865	203,319,664
<b>Total Assets</b>	<b>\$ 112,739,019</b>	<b>\$ 15,891,068</b>	<b>\$ 151,447,918</b>	<b>\$ 1,792,138</b>	<b>\$ 281,870,143</b>

(Continued)

# THE HARRISBURG AUTHORITY

## COMBINING BALANCE SHEET

DECEMBER 31, 2009

(Continued)

Liabilities and Net Assets	Water Segment	Sewer Segment	Resource Recovery Segment	Working Capital Fund	Total
<b>Liabilities:</b>					
Current liabilities:					
Accounts payable and accrued liabilities	\$ 551,706	\$ -	\$ -	\$ 65,273	\$ 616,979
Current portion of amount due to the City of Harrisburg	1,029,479	-	5,279,824	-	6,309,303
Due to bond insurer	-	-	630,474	-	630,474
Due to County of Dauphin	-	-	2,329,367	-	2,329,367
Total current liabilities	1,581,185	-	8,239,665	65,273	9,886,123
Liabilities payable from restricted assets:					
Accounts payable	-	63,518	3,568,922	-	3,632,440
Accrued interest payable	3,130,277	-	2,172,375	-	5,302,652
Current portion of loan payable	-	-	1,912,500	-	1,912,500
Current portion of notes payable	-	173,250	35,475,000	-	35,648,250
Current portion of bonds payable	2,875,000	3,470,000	2,895,000	-	9,240,000
Total liabilities payable from restricted assets	6,005,277	3,706,768	46,023,797	-	55,735,842
Noncurrent liabilities:					
Due to the City of Harrisburg	341,428	-	24,760	-	366,188
Loan payable	-	-	17,511,500	-	17,511,500
Notes payable, net of discount of zero, zero, \$830,811, and zero	-	1,621,072	66,619,189	-	68,240,261
Bonds outstanding, net of discount and deferred losses on refunding of \$18,346,451, \$1,316,496, \$4,964,271, and zero	138,238,549	5,603,504	148,170,729	-	292,012,782
Deferred revenue	2,052,962	-	755,614	1,751,562	4,560,138
Accrued landfill closure and post-closure care liability	-	-	2,242,262	-	2,242,262
Total noncurrent liabilities	140,632,939	7,224,576	235,324,054	1,751,562	384,933,131
Total Liabilities	148,219,401	10,931,344	289,587,516	1,816,835	450,555,096
<b>Net Assets:</b>					
Invested in capital assets, net of related debt	(38,662,654)	-	(134,081,167)	351,865	(172,391,956)
Restricted					
Debt service	-	9,990,258	-	-	9,990,258
Construction	-	388,557	-	-	388,557
Guarantee agreement	-	-	-	304,374	304,374
Water operations	1,136,443	-	-	-	1,136,443
Unrestricted	2,045,829	(5,419,091)	(4,058,431)	(680,936)	(8,112,629)
Total Net Assets	(35,480,382)	4,959,724	(138,139,598)	(24,697)	(168,684,953)
<b>Total Liabilities and Net Assets</b>	<b>\$ 112,739,019</b>	<b>\$ 15,891,068</b>	<b>\$ 151,447,918</b>	<b>\$ 1,792,138</b>	<b>\$ 281,870,143</b>

**THE HARRISBURG AUTHORITY**  
**COMBINING SCHEDULE OF REVENUES, EXPENSES,**  
**AND CHANGES IN FUND NET ASSETS**  
**YEAR ENDED DECEMBER 31, 2009**

	Water Segment	Sewer Segment	Resource Recovery Segment	Working Capital Fund	Total
<b>Operating Revenues:</b>					
User charges	\$ 17,189,742	\$ -	\$ 25,032,944	\$ 11,527	\$ 42,234,213
Administrative fees	-	125,000	-	781,299	906,299
Total operating revenues	17,189,742	125,000	25,032,944	792,826	43,140,512
<b>Operating Expenses:</b>					
Operating	8,805,327	-	21,269,154	-	30,074,481
Administrative	400,000	160,000	221,299	936,698	1,717,997
Depreciation	2,169,925	-	4,810,305	-	6,980,230
Landfill closure and post-closure care expense	-	-	(27,901)	-	(27,901)
Total operating expenses	11,375,252	160,000	26,272,857	936,698	38,744,807
<b>Operating Income (Loss)</b>	<b>5,814,490</b>	<b>(35,000)</b>	<b>(1,239,913)</b>	<b>(143,872)</b>	<b>4,395,705</b>
<b>Non-Operating Revenues (Expenses):</b>					
Investment income	101,924	40,741	538,646	14,200	695,511
Lease rental income	-	414,977	-	-	414,977
Miscellaneous income (expense)	7,660	(594)	(112,486)	156,866	51,446
Transfers to the City sewer operating fund	-	(4,586,313)	-	-	(4,586,313)
Interest expense	(8,489,206)	(880,305)	(15,647,403)	-	(25,016,914)
Amortization of deferred financing costs	(446,538)	(21,648)	(1,474,789)	-	(1,942,975)
Total non-operating revenues (expenses)	(8,826,160)	(5,033,142)	(16,696,032)	171,066	(30,384,268)
<b>Change in Net Assets Before Transfers</b>	<b>(3,011,670)</b>	<b>(5,068,142)</b>	<b>(17,935,945)</b>	<b>27,194</b>	<b>(25,988,563)</b>
Transfers in	-	-	310,824	-	310,824
Transfers out	-	-	-	(310,824)	(310,824)
<b>Change in Net Assets</b>	<b>(3,011,670)</b>	<b>(5,068,142)</b>	<b>(17,625,121)</b>	<b>(283,630)</b>	<b>(25,988,563)</b>
<b>Net Assets:</b>					
Beginning of year	(32,468,712)	10,027,866	(120,514,477)	258,933	(142,696,390)
End of year	\$ (35,480,382)	\$ 4,959,724	\$ (138,139,598)	\$ (24,697)	\$ (168,684,953)

**THE HARRISBURG AUTHORITY**  
**COMBINING SCHEDULE OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2009**

	Water Segment	Sewer Segment	Resource Recovery Segment	Working Capital Fund	Total
<b>Cash Flows From Operating Activities:</b>					
Receipts from customers and users	\$ 17,425,439	\$ (195,849)	\$ 24,608,915	\$ 50,155	\$ 41,888,660
Receipts for interfund services	-	-	-	756,299	756,299
Payments to suppliers	-	-	(23,631,526)	(942,379)	(24,573,905)
Payments to management agent	(7,964,129)	(11,858)	-	-	(7,975,987)
Payments for interfund services	(485,382)	(160,000)	(110,917)	-	(756,299)
Net cash provided by (used in) operating activities	8,975,928	(367,707)	866,472	(135,925)	9,338,768
<b>Cash Flows From Investing Activities:</b>					
(Purchases) sales of investments, net	(2,336,032)	6,515,198	10,207,534	-	14,386,700
Investment income received	865,738	40,741	228,921	14,200	1,149,600
Payments received on direct financing leases	-	1,909,483	-	-	1,909,483
Net cash provided by (used in) investing activities	(1,470,294)	8,465,422	10,436,455	14,200	17,445,783
<b>Cash Flows from Non-Capital Financing Activities:</b>					
Transfers to the City sewer operating fund	-	(3,200,000)	-	-	(3,200,000)
Net cash used in non-capital financing activities	-	(3,200,000)	-	-	(3,200,000)
<b>Cash Flows from Capital and Related Financing Activities:</b>					
Decrease in advances to the City of Harrisburg	-	164,977	-	-	164,977
Proceeds from issuance of notes payable	-	-	12,466,000	-	12,466,000
Acquisition and construction of capital assets	(591,986)	-	(11,062,481)	-	(11,654,467)
Interest paid	(6,925,145)	(51,402)	(13,405,608)	-	(20,382,155)
Principal paid on capital lease	(162,340)	-	(30,208)	-	(192,548)
Principal paid on long-term debt	(615,001)	(3,624,977)	(4,790,000)	-	(9,029,978)
Proceeds from litigation settlement	-	-	5,327,000	-	5,327,000
Payments from litigation settlement	-	-	(1,834,091)	-	(1,834,091)
Receipts from bond insurance and debt guarantees	-	-	7,797,176	-	7,797,176
Transfers to the City sewer operating fund	-	(1,386,313)	-	-	(1,386,313)
Net cash flows used in capital and related financing activities	(8,294,472)	(4,897,715)	(5,532,212)	-	(18,724,399)
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(788,838)</b>	<b>-</b>	<b>5,770,715</b>	<b>(121,725)</b>	<b>4,860,152</b>
<b>Cash and Cash Equivalents:</b>					
Beginning of year	4,699,662	8,076	2,786,315	1,445,823	8,939,876
End of year	\$ 3,910,824	\$ 8,076	\$ 8,557,030	\$ 1,324,098	\$ 13,800,028

(Continued)

**THE HARRISBURG AUTHORITY**  
**COMBINING SCHEDULE OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2009**  
(Continued)

	Water Segment	Sewer Segment	Resource Recovery Segment	Working Capital Fund	Total
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:</b>					
Operating income (loss)	\$ 5,814,490	\$ (35,000)	\$ (1,239,913)	\$ (143,872)	\$ 4,395,705
Adjustments to reconcile operating income (loss) to cash provided by operating activities					
Depreciation	2,169,925	-	4,810,305	-	6,980,230
Miscellaneous nonoperating income (expense)	7,660	(594)	(112,486)	38,116	(67,304)
Decrease (increase) in grants receivable	-	(247,649)	-	-	(247,649)
Decrease (increase) in accounts receivable	235,697	-	(424,029)	512	(187,820)
(Increase) decrease in due from (to) other funds	(85,382)	-	110,382	(25,000)	-
(Increase) decrease in due from City of Harrisburg	862,165	(73,200)	-	-	788,965
Increase (decrease) in accounts payable	(28,627)	(11,264)	(2,317,999)	(5,681)	(2,363,571)
Increase (decrease) in due to City of Harrisburg	-	-	68,113	-	68,113
Increase (decrease) in accrued landfill closure and post-closure care liability	-	-	(27,901)	-	(27,901)
Net cash provided by operating activities	<u>\$ 8,975,928</u>	<u>\$ (367,707)</u>	<u>\$ 866,472</u>	<u>\$ (135,925)</u>	<u>\$ 9,338,768</u>
					(Concluded)